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IN BRIEF

Distribution of Federal Revenues and Expenditures by Province

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DISTRIBUTION OF FEDERAL REVENUES AND EXPENDITURES BY PROVINCE*

1 INTRODUCTION

The federal government collects revenues from the residents of all Canadian provinces. It also incurs expenditures and implements programs that are widely available to all Canadians, regardless of their province of residence.

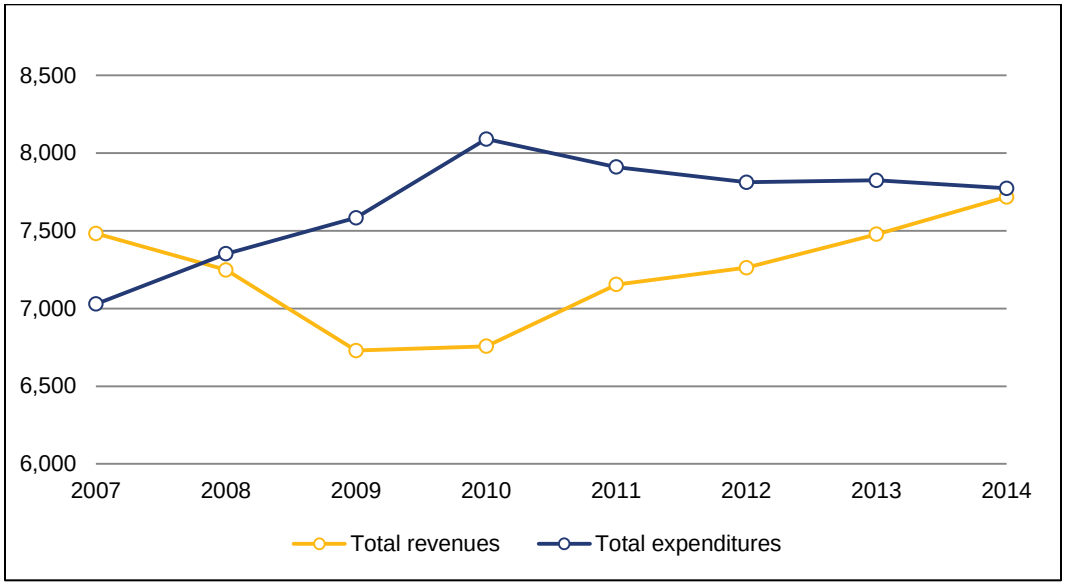
The distribution of federal revenues and expenditures across Canada is often considered in terms of net expenditures. If the federal government collects more revenues than it incurs expenditures in a given province, the province in question is considered a net contributor. Conversely, if the federal government spends more than it collects in a given province, that province is considered a net recipient. Individual parts of the country – be they cities, regions or provinces – are necessarily in one or the other of these situations according to their level of economic prosperity, their wealth in terms of natural resources or various strategic considerations.

This publication uses the most recent data available to provide an overview of the distribution of federal revenues and expenditures in Canada's provinces.

2 OVERVIEW OF FEDERAL REVENUES AND EXPENDITURES

In 2014, the federal government collected an average of $7,717 in revenues and incurred an average of $7,773 in expenditures per Canadian (see Figure 1). When the federal government records a deficit, per capita expenditures are typically higher than per capita revenues, as was the case from 2008 to 2013. The situation is generally reversed when the federal government records a surplus, as indicated by the upward trend in revenues in 2014. According to the *Public Accounts of Canada 2015*, the federal government did achieve a small budget surplus of $1.9 billion in 2014–2015.[1] Indeed, the revenues the federal government collects from the provinces and territories are equivalent to its expenditures only in a balanced budget situation.

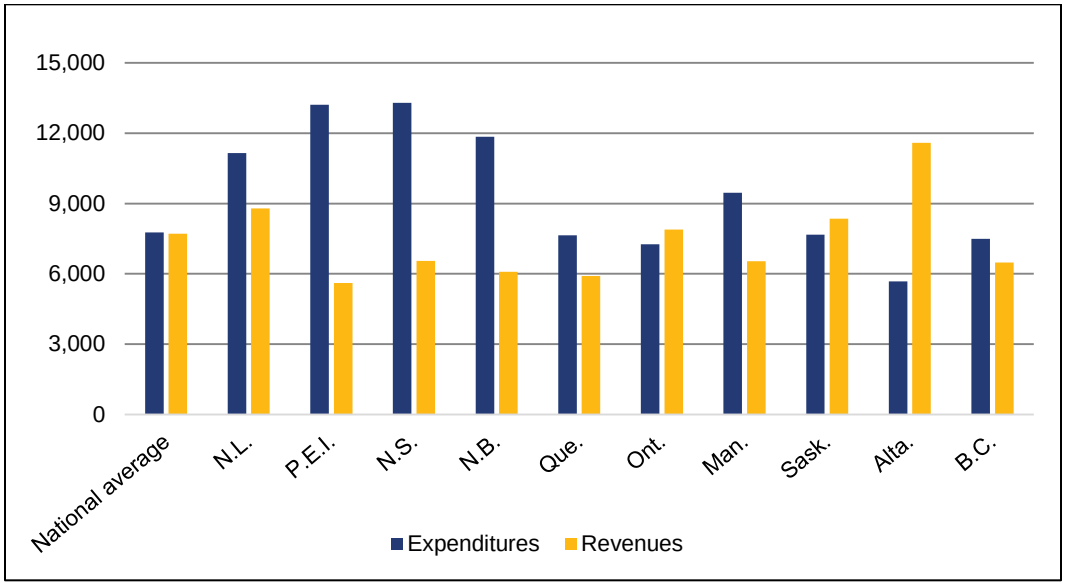
Figure 1 – Federal Revenues and Expenditures, 2007–2014
(in dollars per capita)



Sources: Figure prepared by the authors using data obtained from Statistics Canada, "Table 384-0047: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)"; and "Table 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons unless otherwise noted)," CANSIM (database), accessed 10 December 2016.

Figure 2 provides an overview of per capita federal revenues and expenditures in each province in 2014. In that year, federal revenues exceeded expenditures in only three provinces: Alberta, Saskatchewan and Ontario. The difference was greatest in Alberta, where strong economic growth in 2014 raised the amount of revenues collected by the federal government to twice the level of federal expenditures in the province.

Figure 2 – Federal Revenues and Expenditures by Province, 2014 (in dollars per capita)



Sources: Figure prepared by the authors using data obtained from Statistics Canada, "Table 384-0047: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)"; and "Table 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons unless otherwise noted)," CANSIM (database), accessed 10 December 2016.

3 FEDERAL GOVERNMENT REVENUES BY PROVINCE

3.1 OVERVIEW

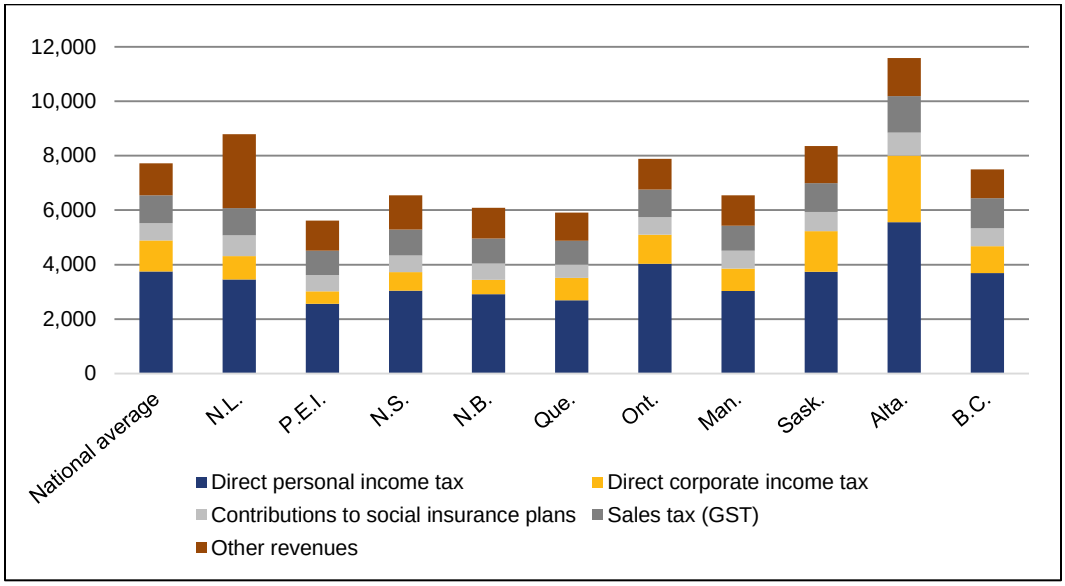
The federal government has a number of revenue streams, including personal income tax, the goods and services tax (GST), corporate income tax and employee contributions to social insurance plans (payroll taxes), such as Employment Insurance and the Canada Pension Plan.

3.2 REVENUE COLLECTION BY PROVINCE

Figure 3 shows federal revenues collected, by province and by type. In 2014, federal revenues per capita were higher than the national average in only four provinces: Newfoundland and Labrador, Ontario, Saskatchewan and Alberta.

The federal government collects more in personal income tax in some provinces primarily because income levels there are higher.[2] Since federal tax rates do not vary from one province to the next, the federal government generally collects more revenues in provinces where economic conditions are more favourable. The same holds true for the majority of its revenue sources.

Figure 3 – Federal Revenues by Province and by Type, 2014
(in dollars per capita)

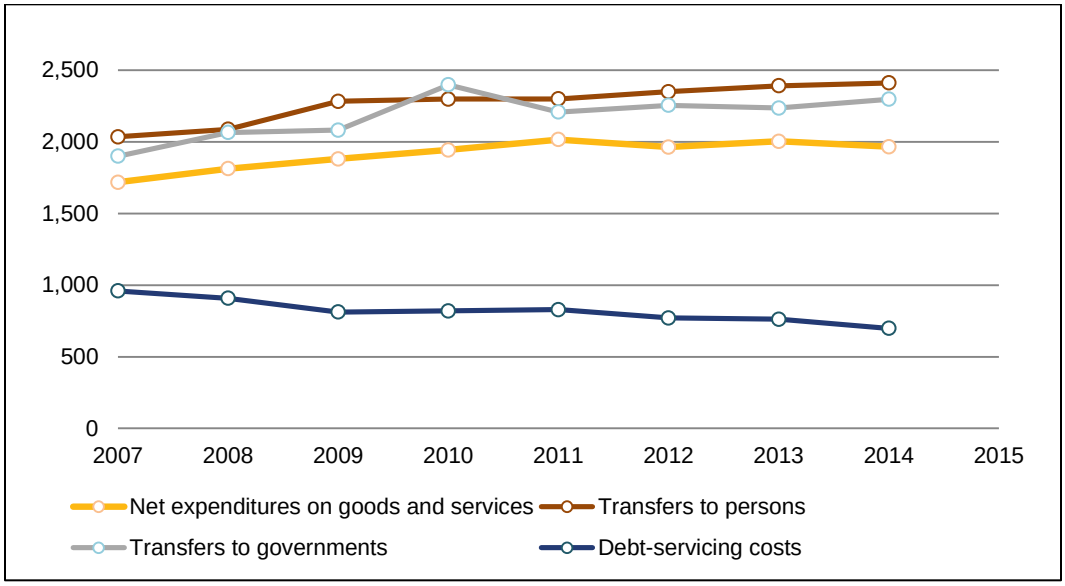


Sources: Figure prepared by the authors using data obtained from Statistics Canada, "Table 384-0047: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)"; and "Table 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons unless otherwise noted)," CANSIM (database), accessed 10 December 2016.

4 FEDERAL GOVERNMENT EXPENDITURES BY PROVINCE

Federal government expenditures can be divided into three categories: program spending, debt servicing costs and other expenditures. Program spending consists of three main types of expenditure: net expenditures on goods and services, transfers to persons and transfers to provincial governments. Other expenditures account for less than 5% of total federal government expenditures; they include business subsidies, transfers to non-residents and certain payments to local governments.[3]

Figure 4 – Federal Expenditures by Type, 2007–2014
(in dollars per capita)

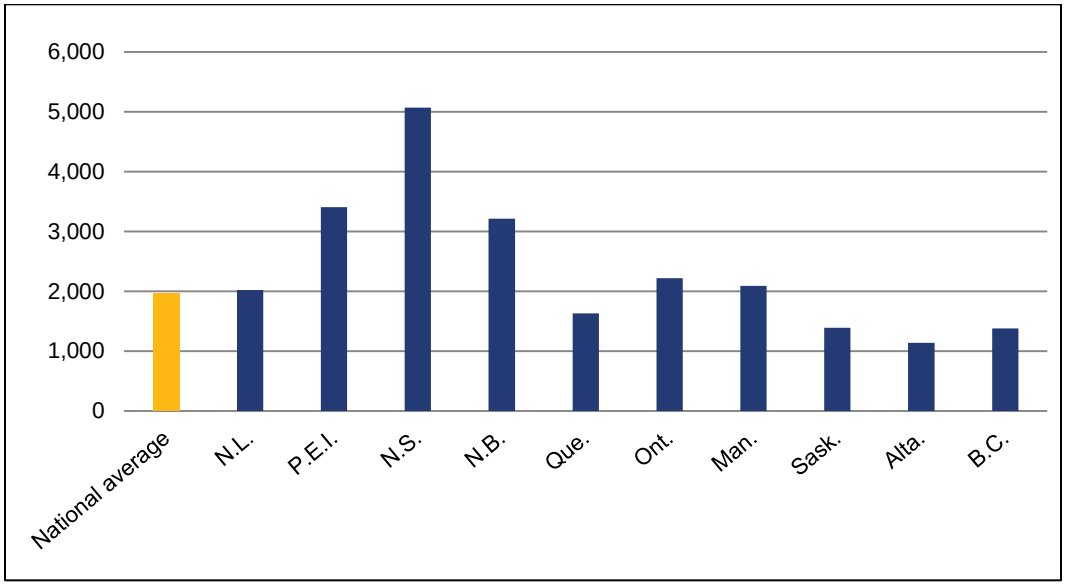


Sources: Figure prepared by the authors using data obtained from Statistics Canada, "Table 384-0047: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)"; and "Table 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons unless otherwise noted)," CANSIM (database), accessed 10 December 2016.

4.1 Net Expenditures on Goods and Services

The first category of program expenditure covers basic government activities – the salaries of public servants, the day-to-day operation of government departments and military installations and operations. It also includes the purchase of supplies and materials.

Figure 5 – Net Federal Expenditures on Goods and Services by Province, 2014 (in dollars per capita)



Sources: Figure prepared by the authors using data obtained from Statistics Canada, "Table 384-0047: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)"; and "Table 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons unless otherwise noted)," CANSIM (database), accessed 10 December 2016.

On a per capita basis, net federal government spending on goods and services is highest in the Atlantic provinces, particularly in Nova Scotia. At the other end of the spectrum, per capita federal spending on goods and services in British Columbia, Alberta and Saskatchewan was markedly lower than in the rest of the country in 2014.

It is important to note that two main considerations factor into the distribution of expenditures of this type: the logical location of certain government activities and the federal government's desire to have an active presence throughout the country.

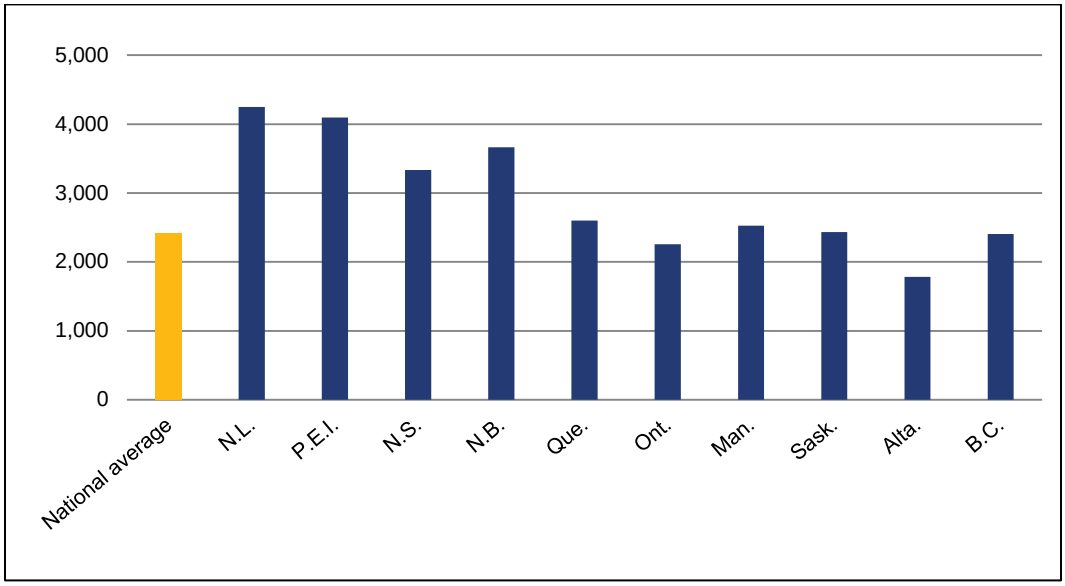
The clearest example of the first of these considerations is the location of a substantial portion of the federal public service in the National Capital Region. Indeed, this category of federal expenditure is the only one in which Ontario exceeds the national average. Similarly, Halifax – with its large, natural, ice-free harbour – is a logical choice for the location of the Atlantic naval base.

4.2 Federal Transfers to Persons

The second type of program expenditure, federal transfers to persons, comprises payments under federal programs such as Employment Insurance, the Canada Pension Plan and Old Age Security.

The amounts paid are closely tied to the socioeconomic conditions in the various provinces. As a result, provinces with relatively low income levels and relatively high unemployment rates tend to receive larger per capita shares of federal transfers to persons. A similar effect can be seen in provinces with larger populations of senior citizens or children, for example.

Figure 6 – Federal Transfers to Persons by Province, 2014
(in dollars per capita)



Sources: Figure prepared by the authors using data obtained from Statistics Canada, "Table 384-0047: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)"; and "Table 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons unless otherwise noted)," CANSIM (database), accessed 10 December 2016.

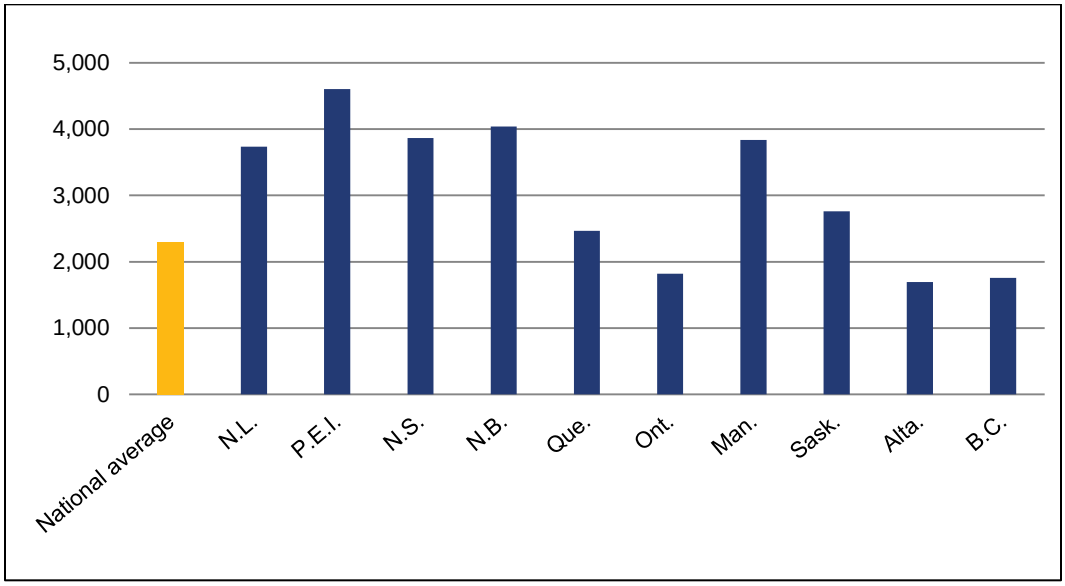
Federal transfers to persons are essentially the same across Canada, except in the case of Employment Insurance, whose eligibility requirements take regional considerations into account. Alberta and Ontario were the only provinces where transfers to persons were below the national average in 2014; in contrast, the highest amount per capita went to Newfoundland and Labrador.

4.3 Federal Transfers to Provinces

The third category of program expenditure consists of transfers to provincial governments, in particular Equalization payments and payments through the Canada Health Transfer and the Canada Social Transfer.

Federal transfers to provinces vary widely from one province to the next, primarily because only certain provinces qualify for Equalization payments (in 2014, six provinces received such payments).[4] On a per capita basis, Prince Edward Island obtained the most in federal transfers in 2014, mainly because of the amount of Equalization it received,[5] whereas Alberta stood at the opposite end of the spectrum.

Figure 7 – Federal Transfers to Provinces, 2014
(in dollars per capita)



Sources: Figure prepared by the authors using data obtained from Statistics Canada, "Table 384-0047: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)"; and "Table 051-0001: Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons unless otherwise noted)," CANSIM (database), accessed 10 December 2016.

4.4 Federal Interest Payments on the National Debt

Debt-servicing costs make up the final major category of federal expenditures. The national debt and the interest payments on that debt are shouldered equally across the country.[6] Hence, the per capita cost of servicing the national public debt ($698 in 2014) is identical in each province.

5 CONCLUSION

There is a clear redistributive effect to net federal expenditures in Canada: the federal government receives more tax revenues in certain provinces and spends more in others. In many cases, the differences in net federal expenditures from one province to the next do not stem from a decision to favour certain provinces over others. Rather, they are largely a reflection of federal policies to redistribute wealth from the well-off to the less affluent. In fact, except for the Employment Insurance program, place of residence has no bearing on the amount of federal tax Canadians pay or the amount of federal support they receive.

Moreover, the provinces themselves are not uniformly prosperous or poor: degrees of prosperity vary regionally within individual provinces. Thus, a similar analysis of specific regions of a given province could yield results entirely different from those obtained for the province as a whole. It is also important to remember that a province's economic situation can change drastically from one year to the next.

NOTES

* This publication was prepared by Sarah Rwigema, under the supervision of Patrice Martineau and Emmanuel Preville. It updates the information contained in Michael Holden, *Federal Government Finances: An Examination of Federal Revenues and Expenditures in the Provinces*, Publication No. 06-39E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 14 February 2007.

1. Receiver General for Canada, "Section 1 – Financial Statements Discussion and Analysis," in *Public Accounts of Canada 2015: Volume I – Summary Report and Consolidated Financial Statements*, 2015.
2. For more detailed information, see Statistics Canada, "Table 206-0011 – Market income, government transfers, total income, income tax and after-tax income, by economic family type, Canada, provinces and selected census metropolitan areas (CMAs), annual," CANSIM (database), accessed 8 December 2016.
3. Statistics Canada, "Table 384-0047 – Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts, annual (dollars x 1,000,000)," CANSIM (database), accessed 8 December 2016.
4. Department of Finance Canada, *Federal Support to Provinces and Territories*.
5. Department of Finance Canada, "Federal Support to Prince Edward Island," *Federal Support to Provinces and Territories*.
6. For additional information, see Department of Finance Canada, *Annual Financial Report of the Government of Canada – Fiscal Year 2014–2015*.