General purpose transfer payments   20.3.1

General purpose transfers refer to payments from one level of government to another level which the transferee is not required to use for a specific purpose. They were formerly identified as "unconditional" transfers. The various programs under which they are paid, as well as their amounts for the fiscal years ended March 31, 1974 and 1975, are indicated in Table 20.20.

Statutory subsidies, established by the British North America Act, 1867, consist of contributions by the federal government toward the support of provincial governments. They include an allowance per head of population, allowances for interest on debt and other special amounts as agreed upon under the terms of the union and subsequently. These subsidies amounted to $33.8 million in the fiscal year ended on March 31, 1975. The share of federal estate taxes remitted to the provinces in fiscal 1974-75 ($3.6 million) is in respect of deaths which occurred prior to January 1, 1972.

Under the Public Utilities Income Tax Transfer Act, the federal government remits to the provinces 95% of the tax it collects from non-government-owned public utility companies that generate or distribute to the public electrical energy, gas and steam. The intent of this policy is to give to provinces tax revenue from companies engaged in the exploitation of provincial natural resources.

The most important payments included in general purpose transfers are made under the equalization program. This program, established in 1967 and reviewed every five years, was based on the philosophy that all Canadian citizens are entitled to a standard of public services that is fairly comparable among the various regions. In a country as vast as Canada, natural resources and economic wealth are unevenly distributed, some provinces having above-national-average wealth while others are well below that average. Through the equalization system the federal government makes available, from general revenue it collects in all provinces, part of the nation's wealth to provinces with income lower than national average capacity to raise revenues, making it possible for these provinces to provide reasonable standards of services without recourse to unduly high levels of taxation.

According to the formula set out in the Federal-Provincial Fiscal Arrangements Act, 1972 and amendments, provincial revenue subject to equalization is divided into 22 revenue sources, for each of which a revenue base is defined. The act was amended in November 1973 to include revenues from school taxes in provincial revenues subject to equalization. To determine the amount of equalization to which a provincial government is entitled, its population as a proportion of the all-provinces' population and its revenue base as a proportion of the all-provinces' revenue base for each of the 22 revenue sources are calculated. Where the former proportion is higher than the latter for any of the revenue sources, the province has a fiscal capacity deficiency for that revenue source; if the magnitude of these proportions is reversed, the province has a fiscal capacity excess. The total revenue of all provinces for each revenue source is multiplied by each province's fiscal deficiency or fiscal excess related to the appropriate revenue source and, for any province, the amount of equalization payable is the sum total of the "deficiency" products less the sum total of the "excess" products.

Total equalization payments to the seven provinces having an overall fiscal capacity deficiency have increased from $549.6 million in fiscal year 1967-68 to $2,287.0 million in the year ended March 31, 1975.

Tax collection agreements   20.3.2

Tax Collection Agreements, replacing the tax-sharing system in operation since 1951, were introduced under the Federal-Provincial Arrangements Act, 1962. Under these agreements, the federal government undertook to collect provincial personal and corporation income taxes on behalf of the provinces. All provinces, except Quebec, signed the agreements in respect of personal income tax, and all