

provinces except Quebec and Ontario entered into agreements covering the collection of corporation income tax.

An abatement system, introduced in 1962 and amended in 1967, facilitated the establishment by the provinces of their own tax rates. The 1967 act was amended in 1972 in order to adjust the terms of the agreements to the new federal Income Tax Act introduced in 1972 following the tax reform. In the 1972 amendment the abatement system was abandoned as was the reference to federal "basic tax". Instead, the federal rates of personal income tax were adjusted downward for the full amount of the former provincial abatement. This downward adjustment corresponded to 30.5% of "basic federal tax" and is equivalent to the former 28% abatement.

In addition, Part IV of the Federal-Provincial Fiscal Arrangements Act, 1972, provided a guarantee that for five years the provinces would not suffer a loss of income tax revenue as a result of adopting income tax acts modelled on the new federal act, meant to implement the 1971 tax reform, provided that their rates are equivalent to those levied under the previous act. Revenue is guaranteed at a yield level equal to that obtained had the 1971 tax systems still been in effect.

20.3.3 Specific purpose transfer payments

This type of transfer payment is generally referred to as a conditional grant, that is, a grant which is to be used for a specific purpose by the receiving government. Most of these grants are made under agreements governing joint federal-provincial programs. Total federal payments to provinces and municipalities of this nature have increased from \$1,816.7 million in 1969-70 to \$4,014.8 million in 1974-75, as shown in Table 20.20.

These programs take three forms: the federal government contributes financial assistance to a program administered by a province; the federal and provincial governments each assume the sole responsibility for the construction, administration and financing of separate aspects of a joint project; or the province contributes financially to a joint program administered by the federal government.

The first category of joint programs is by far the most common. The federal government agrees to make money available to a province on certain conditions such as specification of the field, service or project to which the money must be applied. In addition to administering the programs, the provinces may be required to make financial contributions or to provide certain facilities and to meet specified standards of operation. Various programs in the field of social policy are of this kind. For example, the federal government undertakes to contribute a specified share of the costs incurred by the provinces in respect of public hospital insurance programs, as described in Chapter 5.

Although the hospital insurance program, with its specifications of eligible hospitals, sharable costs and the amount of the federal contribution, is characteristic of many conditional grant programs, there are others in which the conditions are nominal. For example, under the Canada Assistance Plan the federal government undertakes to share one half the cost of welfare, the scale and conditions of the assistance being determined by the provinces.

Joint programs in the second category — those in which the federal and provincial governments accept sole responsibility for portions of a total project — are few, and generally of a public works nature such as the irrigation projects carried out jointly by the Prairie Farm Rehabilitation Administration and the province of Alberta on the St. Mary's and Bow rivers.

Joint programs in the third category are also few in number. The South Saskatchewan River dam was an example. Canada undertook to pay the costs of the dam in the first instance, with Saskatchewan subsequently reimbursing Canada for one quarter of the federal expenditures (up to a maximum of \$25 million) on the dam and reservoir. By March 31, 1968, the full amount had been recovered from Saskatchewan.

Federal transfers to provincial, territorial and local governments for the fiscal year ended March 31, 1975 totalled \$6.7 billion, compared with \$5.3 billion for