

personal and corporation income tax revenue entailed by the 1971 revision of the Income Tax Act was completely modified by the 1977 act.

First, provincial revenue from corporation income tax was no longer subject to revenue guarantee payments. Second, the guarantee of provincial revenue from personal income tax was to be calculated for a given year in the five-year period April 1, 1977 to March 31, 1982, in relation to the immediately preceding year. For provinces which express their rates of personal income tax as a percentage of basic federal tax, the federal government would compensate any revenue losses they might incur as a result of policy changes which reduced the federal basic tax. However, such losses would have to exceed 1.0% of federal basic tax within a province before a guarantee payment could be made to that province. For provinces with their own personal income tax system — Quebec only in 1977 — a guarantee payment would be made if they made changes in their tax system similar to the federal changes during the same year.

Established programs financing. The 1977 act sets out provisions for financing established shared-cost programs, namely those for post-secondary education, hospital insurance, medical care and extended health care services. Through this new act all open-ended cost-sharing arrangements in the health care fields were terminated and cost-sharing provisions of the Hospital Insurance and Diagnostic Services Act and the Medical Care Act were replaced by new financing provisions.

The federal contributions under the new financing system take the form of a share of the field of income taxes, occupied so far by the federal government, and of cash payments. In the field of income taxes, the share of federal taxes transferred to the provinces is equal to 13.5% of basic federal tax and a 1.0% tax on corporation taxable income. These percentages include the former transfers of 4.357% of personal income tax and the 1.0% tax on corporation taxable income which were associated with the post-secondary education cost-sharing program. Therefore, the net additional tax transfer in favour of the provinces corresponds to 9.143% of the former basic federal tax. From 1977 onward, the latter was reduced to take into account such a transfer. As a result, there would be no increase in income tax to be paid by taxpayers if the provinces were to raise their rates to offset precisely the federal reduction.

In the case of Quebec, the tax change required consists only in a reduction of the special federal tax abatement granted to the residents of the province, from 24% to 16.5%, in order to express it in relation to the reduced basic federal tax with no loss to Quebec taxpayers. This special abatement is tantamount to the province's contracting out all the above-named shared-cost programs in 1964.

Cash payments are in four forms, as follows: (1) A basic per capita cash contribution equal to the amount obtained from the multiplication of the population of each province by an amount equivalent to 50% of the national average per capita contribution to the above-mentioned shared-cost programs in the base year, 1975-76, adjusted annually according to the rate of growth of the Canadian economy. (2) Transition payments to compensate for variations in the value of the tax transfers among the provinces to ensure that this value is at least equal to basic cash contributions. (3) Levelling adjustments to facilitate the transition to the new arrangements and to achieve equal per capita payments among provinces over a five-year period. Provinces below the national average will receive additional grants so as to reach this average in three years; provinces above the national average will be reduced to that average in five years. (4) A cash payment of \$20 per capita, adjusted annually to take account of variations in the gross national product, in respect of some health care services formerly included in part in the Canada Assistance Plan, such as nursing home and adult residential care services. Other services are also included, namely intermediate care, converted mental hospitals, home care and ambulatory health care.

Alternative payments for standing programs. In 1964, the provinces were given an option to assume full financial and administrative responsibility for certain federal-provincial shared-cost programs in return for fiscal compensation. To this end, the Established Programs (Interim Arrangements) Act was enacted in April 1965; it was repealed through the 1977 act. Quebec alone took advantage of this legislation and