

contracted out all major shared-cost programs. Several amendments were made to the act between 1965 and 1972. As a result, the tax abatement granted to Quebec taxpayers, in respect of contracting out, was at the end of 1976 as follows: hospital insurance program 16%; special welfare program 5%; and youth allowances program 3%. However, the latter abatement has been fully recovered from Quebec since 1973 when federal youth allowances started to be paid to Quebec residents.

The new arrangements for federal income tax abatement in favour of the provinces required new calculations of the special abatement to Quebec related to contracting out. These calculations take into account the additional fiscal transfer of 13.5% granted to all provinces and the accompanying reduction in the basic federal tax. As a result, the revised tax abatement granted to Quebec taxpayers is 16.5% of the reduced federal basic tax commencing with the 1977 taxation year. This 16.5% abatement corresponds, in dollar value, to the former 24% abatement.

**Provincial taxes and fees.** According to the British North America Act, a government cannot levy taxes on another government. However, due to the growing complexities of the economic and commercial transactions of governments, the constitutional provisions for intergovernmental taxation have become increasingly difficult to observe, particularly when government purchases are made through suppliers in the private sector such as retailers and building contractors.

To remove, or at least minimize, the uncertainties and difficulties surrounding the paying of consumption taxes among governments, a set of indexes based on criteria applied to various types of expenditure has been devised and is incorporated in the 1977 federal-provincial fiscal arrangements. Under this act the federal government could enter into reciprocal taxation agreements with the provincial governments as of October 1977. Such agreements would run until March 31, 1981, with provisions for renewal. The terms of these agreements also apply to purchases by Crown corporations listed in parts of the Financial Administration Act and the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977. As of February 1977, six provinces had agreed to enter into these reciprocal taxation agreements: Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec and Ontario.

With minor exceptions, consumption taxes levied by a level of government would be paid by the other level. Where federal taxes paid by one province exceeded that province's taxes paid by the federal government, the latter would compensate the difference through a grant in lieu of such taxes.

## Provincial government finance

20.4

Because of variation from province to province in administrative structure and, to a lesser extent, in accounting and reporting practices, adjustments are made to financial data reported in public accounts to produce statistics comparable between different provinces and with those for the other levels of government. In 1972 the concepts and classifications of the national system of government financial statistics were redefined by Statistics Canada (see *The Canadian system of government financial management statistics*, Catalogue 68-506). Financial statistics for the years 1971 onward are compiled in accordance with these revisions and are not comparable with data for prior years published in earlier editions of the *Canada Year Book*.

Gross general revenue and expenditure for the year ended March 31, 1975 are given in Table 20.22, liabilities in Table 20.15, and liabilities of other governments and entities guaranteed by provincial and territorial governments in Table 20.16. More information on outstanding provincial bonds and debentures is in Table 20.17.

## Local government finance

20.5

**Local government taxation.** In 1974, the latest year for which complete data are available, local government revenues from taxation rose 11.4% to \$4,730 million, and the rate of collections declined to 98.77% from 99.99%. Taxes receivable expressed as a proportion of taxation revenue remained steady at 10.4%. Lower percentages of taxes