year federal-provincial arrangements, each one modifying and broadening the terms and content of the preceding one. For instance, with the adoption in 1957 of the tax sharing arrangements, replacing the tax rental agreements in force since 1947, the federal government initiated an income tax abatement system in favour of the provinces. The 1957 formula, however, was modified by the 1962 agreements so that the provinces could establish their own income tax rates which could be higher or lower than the federal abatement. Further, the federal government offered to collect, together with its own income tax, any income tax that provinces levied.

In 1967 the equalization program was established pursuant to the enactment of the Federal-Provincial Fiscal Arrangements Act, 1967. New acts were passed in 1972 and 1977. These revisions did not modify the basic philosophy of redistributing part of the nation's wealth among the provinces. From its general revenue, the federal government compensates any province whose per capita revenue is below the national average because of a relative deficiency in the province's tax base. Thus, equalization payments are intended to ensure that all citizens are provided with comparable standards of public services throughout the country. The Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 added provisions concerning the financing of established shared-cost programs, set out later in this section.

Fiscal equalization payments. According to the formula, known as the representative tax system, provincial revenue subject to equalization is divided into 29 revenue sources in the 1977 act, compared with 20 in the 1972 act, to reflect more accurately what provinces are taxing. For each revenue source, an economic revenue base is established uniformly for all provinces. To determine the amount of equalization to which a province is entitled, population of the province as a proportion of the population of all provinces and revenue base of the province as a proportion of that of all provinces are calculated for each of the 29 revenue sources. Where the former proportion is higher than the latter for any of the revenue sources, the province is said to have a fiscal capacity deficiency for that revenue source; if these proportions are reversed, the province is said to have a fiscal capacity excess. The total revenue of all provinces for each revenue source is multiplied by each province's respective fiscal capacity 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 total of the excess products.

Since the beginning of this program in 1967, seven provinces have received equalization payments: Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Manitoba and Saskatchewan. Payments amounted to $2,383.5 million in the fiscal year ended March 31, 1978.

Tax collection agreements. Pursuant to the Federal-Provincial Fiscal Arrangements Act, 1962, the federal government undertook to collect for the provinces, with its own income tax, provincial personal and corporation income taxes provided that provincial tax systems were uniform with the federal system. All provinces except Quebec signed the agreements for personal income tax, and all provinces except Quebec and Ontario for corporation income tax. This collection is made at no cost to the provinces except for a small fee for administration of special tax rebates implemented by some provinces.

The federal tax abatement system, introduced in 1957, was abandoned in 1972 and the federal rates of personal income tax were adjusted downward to take into account the previous abatements and modifications to the structure of the federal tax system. A new scale was established according to which it was estimated that a provincial tax rate of 30.5% of the new basic federal tax would produce the same revenue as did the 28% abatement granted under the 1967 arrangements.

Due to modifications brought by the 1977 act for financing established shared-cost programs, the enlarged personal income tax field available to the provinces would be equivalent to about 44% of basic federal tax. Provincial governments, however, are free to specify rates above or below 44% and so determine the impact of their income taxes. Section 22.6.2 gives provincial rates in 1978.

Provincial personal income tax revenue guarantee payments. The formula according to which the federal government guaranteed that the provinces would not