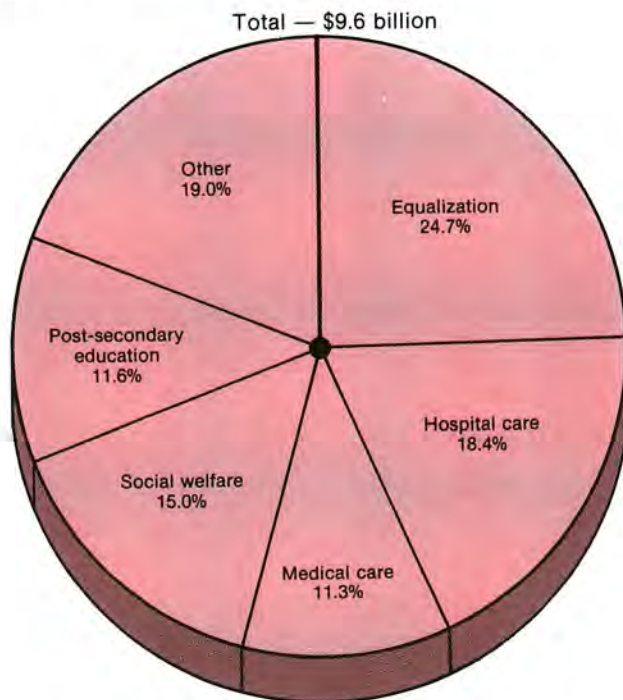


Federal government transfers to provincial governments and territories, 1978



suffer a loss of 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 a province with its own personal income tax system — in Quebec only — a guarantee payment would be made if changes were made in the 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