

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 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