

20.3.1 General purpose transfer payments

General purpose transfers refer to payments from one level of government to another level which the transferee is not required to use for a specific purpose or for specific purposes. They were formerly identified as "unconditional" transfers. The various programs under which they are paid, as well as their amounts for the fiscal year ended March 31, 1973, are indicated in Table 20.4.

Statutory subsidies, established by the British North America Act, 1867, consist of contributions by the federal government toward the support of the governments and legislatures of the provinces. They include an allowance per head of population, allowances for interest on debt and other special amounts as agreed upon under the terms of the union and subsequent to the union. These subsidies amounted to \$33.8 million in the fiscal year ended on March 31, 1973. The share of federal estate taxes remitted to the provinces in 1972-73 (\$12.4 million) is in respect of deaths which occurred prior to January 1, 1972.

Since 1947 the federal government has shared with the provinces the amounts of federal corporation income tax collected from non-government electric and gas utilities operating within each province. The provincial share was raised to 95% from 50% of the amount collected as of January 1, 1966. The intent of this policy was to make available to provinces tax revenue from companies engaged in the exploitation of provincial natural resources.

The most important payments included in general purpose transfers are made under the equalization program. This program, as it is now known, was established in 1967 and slightly revised in 1972. This revision, however, did not modify the basic philosophy of the program according to which all Canadian citizens are entitled to a standard of public services that is fairly comparable among the various regions of the country. In a country as vast as Canada, natural resources and economic wealth are unevenly distributed across the country: some provinces have above-national-average wealth while others are well below that average. Through the equalization system the federal government makes available, from general revenue it collects in all provinces, part of the nation's wealth to provinces with income lower than the national average income, thus making it possible for these provinces to provide reasonable standards of services without recourse to unduly high levels of taxation.

According to the formula set out in the Federal-Provincial Fiscal Arrangements Act, 1972 and amendments, provincial revenue subject to equalization is divided into 19 revenue sources, for each of which a revenue base is defined. To determine the amount of equalization to which a provincial government is entitled, its population as a proportion of the all-provinces' population and its revenue base as a proportion of the all-provinces' revenue base for each of the 19 revenue sources are calculated. Where the former proportion is higher than the latter for any of the revenue sources, the province has a fiscal capacity deficiency for that revenue source; if the magnitude of these proportions is reversed, the province has a fiscal capacity excess. The total revenue of all provinces for each revenue source is multiplied by each province's respective fiscal deficiency or fiscal excess 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 sum total of the "excess" products.

Total equalization payments to the seven provinces having an over-all fiscal capacity deficiency have increased from \$549.6 million in fiscal year 1967-68 to \$1,137.4 million in the year ended March 31, 1973. Provinces receiving such payments are indicated in Table 20.4.

20.3.2 Tax collection agreements

Tax Collection Agreements, replacing the tax-sharing system in operation since 1951, were introduced in 1962 under the Federal-Provincial Arrangements Act, 1962. Under these agreements, the federal government undertook to collect personal and corporation income taxes on behalf of the provinces. All provinces, except Quebec, signed the agreements in respect of personal income tax, and all provinces except Quebec and Ontario entered into agreements covering the collection of corporation income tax.

An abatement system, introduced in 1962 and amended in 1967, facilitated the establishment by the provinces of their own tax rates. Under this system the abatement was deducted in determining the federal personal income tax payable and this amount, plus any additional tax imposed by the province, constituted the provincial personal income tax payable. The abatement was set in 1967 at 28% of federal "basic tax" for personal income tax and at 10% of the taxable income of corporations for corporation income tax.