

The 1967 Act was amended in 1972 in order to adjust the terms of the agreements to the new federal Income Tax Act introduced in 1972 following the tax reform. In the 1972 amendment the abatement system was abandoned as was the reference to federal "basic tax". Instead, the federal rates of personal income tax were adjusted downward for the full amount of the former provincial abatement. This downward adjustment corresponded to 30.5% of "basic federal tax" and is equivalent to the former 28% abatement.

In addition, Part IV of the Federal-Provincial Fiscal Arrangements Act, 1972, provided a guarantee that for five years the provinces would not suffer a loss of income tax revenue as a result of adopting income tax Acts modelled on the new federal Act, provided that their rates are equivalent to those levied under the previous Act. Revenue is guaranteed at a yield level equal to that obtained through the projection of 1971 rates.

20.3.3 Specific purpose transfer payments

This type of transfer payment is generally referred to as conditional grants, that is grants which are to be used for a specific purpose by the receiving government. Most of these grants are made under agreements governing joint federal-provincial programs. Total federal payments to provinces and municipalities of this nature have increased from \$1,816.7 million in 1969-70 to \$3,008.4 million in 1972-73, as shown in Table 20.4.

These programs take three forms: the federal government contributes financial assistance to a program administered by a province; the federal and provincial governments each assume the sole responsibility for the construction, administration and financing of separate aspects of a joint project; or the province contributes financially to a joint program administered by the federal government.

The first category of joint programs is by far the most common. The federal government agrees to make money available to a province on certain conditions such as specification of the field, service or project to which the money must be applied. In addition to administering the programs, the provinces may be required to make financial contributions or to provide certain facilities and to meet certain specified standards of operation. Various programs in the field of social policy are of this kind. For example, the federal government undertakes to contribute to participating provinces a specified share of the costs incurred by the provinces in respect of public hospital insurance programs. The federal contribution in each province is equal to 25% of the average per capita cost of in-patient services in Canada as a whole plus 25% of the average per capita cost of in-patient services in the province, multiplied by the average for the year of the number of insured persons in the province.

Although the hospital insurance program, with its specifications of eligible hospitals, sharable costs and the amount of the federal contribution, is characteristic of many conditional grant programs there are others in which the conditions are nominal. For example, under the Canada Assistance Plan the federal government undertakes to share one half the cost of welfare paid to recipients in need; the scale and conditions of the assistance being determined by the provinces.

Joint programs in the second category — those in which the federal and provincial governments accept sole responsibility for portions of a total project — are not numerous and are generally of a public works nature. The irrigation projects carried out jointly by the Prairie Farm Rehabilitation Administration and the province of Alberta on the St. Mary's and Bow rivers in southern Alberta were of this nature.

Joint programs in the third category are also few in number. The South Saskatchewan River dam was an example: Canada undertook to pay the costs of the dam in the first instance, with Saskatchewan subsequently reimbursing Canada for one quarter of the federal expenditures (up to a maximum of \$25 million) on the dam and reservoir. By March 31, 1968, the full amount had been recovered from Saskatchewan.

Federal transfers to the provinces in the form of specific purpose grants increased from \$75 million in the year ended March 31, 1954, to \$3,044.1 million in 1972-73. The increase is attributable largely to the introduction of the hospital insurance and diagnostic services program in 1958, medicare in 1968, increases in the level of assistance, and the integration of welfare programs under the Canada Assistance Plan which began in 1966-67. In 1972-73 federal contributions to the programs in respect of hospital and diagnostic services, medicare, and welfare programs integrated with and into the Canada Assistance Plan amounted to \$1,355.5 million, \$629.3 million and \$778.5 million, respectively. These amounts include the