Federal-Provincial Fiscal Arrangements

Part IV of the bill provides for a new, limited revenue guarantee program intended to avoid serious disruption to provincial financial planning as a result of federal tax policy changes in the year in which they are effective. Its purpose is to encourage the maintenance of a common tax system across Canada. Provincial personal income tax rates under the tax collection agreements are applied to federal basic tax. As a result, any policy change that reduces federal basic tax, after provincial rates are struck, alters provincial tax collections. The guarantee will pay for any such provincial revenue losses, as a result of federal policy, that exceed 1 per cent of federal basic tax in the province. The 1 per cent threshold is designed to avoid the necessity of making payments for what might be regarded as relatively small and unimportant changes. The guarantee will apply to all personal income tax changes announced after the beginning of the tax year and effective in that year. The change in revenues will be estimated by province, and where the potential loss exceeds 1 per cent of federal basic tax a payment will be made.

The province of Quebec both defines its own income tax law and collects its own income tax. Thus, it is not automatically affected like the other provinces. However, Quebec has indicated its interest in making its tax system conform with the national system and has asked to be included in the program. If Quebec makes changes in its tax system similar to the federal changes and in the same year, it will be eligible for a guarantee payment.

Part V of the bill authorizes the federal government to share with the provinces 20 per cent of the yield of a special federal tax of 15 per cent on the pay-out by corporations of undistributed surplus on hand at the end of their 1971 taxation year. The provisions of this part of the bill are simply a continuation of the arrangements provided for under the existing act.

I come now, Mr. Speaker, to part VI of the bill, the new provisions for the financing of established shared-cost programs. In essence, the present cost-sharing arrangements for hospital insurance, medicare and post-secondary education are replaced by a formula under which federal contributions will no longer be tied to provincial expenditures. The objectives of the new arrangements were outlined by the Prime Minister last June. They are: first, to maintain across Canada the standards of service to the public under these major programs and to facilitate their improvement; second, to put the programs on a more stable footing so that both levels of government are better able to plan their expenditures; third, to give the provinces flexibility in the use of their own funds which they have been spending in these fields; fourth, to bring about greater equality among the provinces with regard to the amount of federal funds they receive under the programs; and, fifth, to provide for continuing joint policy discussions relating to the health and post-secondary education fields.

The new established programs financing arrangements as defined in part VI of this bill will serve to help achieve each of these goals. The need for the detailed accounting required under the cost-sharing formulae for hospital insurance, medicare and post-secondary education will be eliminated. This detailed accounting has been a source of irritation and resentment between the two levels of government for some time. The federal contributions to the provinces will now take the form of cash payments and the transfer of tax room to the provinces. Federal contributions to the provinces under this part of the bill will come to more than $6 billion in the next fiscal year. These contributions, in conjunction with the equalization payments, will total almost 21 per cent of provincial gross general revenues, ranging from about 10 per cent in Alberta, a non-equalization receiving province, to well over 35 per cent in each of the four Atlantic provinces.

The basic cash contribution for established programs financing for 1977-78 will equal 50 per cent of the national average per capita contribution for all three programs in the base year 1975-76, multiplied by the population in each province and escalated in line with the growth of the Canadian economy since that year. The tax transfer will consist of 13.5 personal and one corporate income tax points, plus associated equalization. Since the provinces already have 4.357 personal and one corporate income tax points for post-secondary education under part VI of the present act, the increased tax transfer to the provinces will be 9.143 personal income tax points.

It would be helpful if I could take a moment to explain the concept of a tax transfer. The way this will come about will be through a reduction of federal tax in the expectation that the provinces will increase their taxes by an equivalent amount. The result is that the position of the taxpayer will be unchanged but he will pay less tax to the federal government and more to the provincial government. The tax transfer will give the provinces greater flexibility in the use of their financial resources, and thus promote the principle of fiscal responsibility. This is in accord with the wishes of provinces. It will also enable both levels of government to better plan their expenditures. The tax cut will be effective as of January 1 of this year, 1977.

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The value of the tax transfer varies widely among the provinces. In the interest of achieving greater equality of treatment among the provinces, transitional adjustment payments will be made to ensure that the value of the tax transfer is at least equivalent to the value of the basic cash contribution. In this way provinces will receive as much in tax revenues and cash as they would receive if the entire federal contribution were in the form of cash. I should also note that the current shared-cost payments also vary widely from province to province on a per capita basis. Accordingly, levelling adjustments will be made in order to achieve further equality of provincial treatment. These levelling adjustments will assure all provinces equal per capita payments after five years. Provinces now above the national average will be "levelled down" in five years; those now below will be "levelled up" in three years.

There are two other issues I should mention in connection with established programs financing. The first relates to the