

Changes to EPF: 1982

With the passage in 1982 of Bill C-97, *An Act to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977*, the EPF arrangements were altered. A Department of Finance document explains these changes as follows:

In 1982, the federal government terminated the Revenue Guarantee compensation which had been introduced and delivered through EPF in 1977 when the 1972 Revenue Guarantee program expired. Technical changes were also made in 1982 which ensured that EPF transfers to all provinces would be exactly equal per capita.¹¹

The last sentence in this statement needs explanation. The original estimates for the EPF transfer indicated that the tax component eventually would come to provide the bulk of the transfer while the basic cash would be substantially less, but would increase yearly at a stable rate. In the interim, in any province where the basic cash entitlement exceeded the tax yield, transitional cash payments were to be made to make up the difference. The intention was to ensure that no province would lose as a result of accepting part of the federal contribution in tax points rather than in cash.¹² If the tax transfer exceeded the basic cash in a province, the province was to keep the excess.

Instead of declining, these transitional payments remained obstinately stable. This was caused by the generally poor level of economic performance in the late 1970s, which automatically reduced the growth in income tax yields. This forced the federal government to increase its cash outlays in order to top up the lower-than-anticipated tax transfers to the provinces. One consequence of this action was a decrease in the discretionary funds available to the federal government for other purposes. A larger-than-expected cash payment drawn from a smaller-than-anticipated tax base was one of the consequences of the EPF formula during this period of economic downturn. Both the 1981 report of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements (Breau Report)¹³ and the 1985 report of the Royal Commission on the Economic Union and Development Prospects for Canada (Macdonald Commission)¹⁴ call attention to this point. Table 2.4 illustrates the value of these transitional payments over their life

¹¹. Department of Finance, *Amendments to the Federal-Provincial 946 Fiscal Arrangements Act (Bill C-96): An Explanation*, (May 1986), Annex One, p. v.

¹². MacEachen, p. 83.

¹³. Breau Report, p. 95.

¹⁴. *Report of the Royal Commission on the Economic Union and Development Prospects for Canada* (Ottawa: Minister of Supply and Services, 1983), Volume 3, p. 142. (Hereafter referred to as Macdonald Commission Report.)