

*Federal-Provincial Fiscal Arrangements*

revenues subject to equalization, but to do so in a more consistent way.

At the present time, revenues from non-renewable resources, except for oil and gas, are equalized in full particularly because revenues are split into two parts, basic and additional. Basic revenues, essentially revenues up to 1973-74 levels, are equalized in full: additional revenues essentially representing the increase in revenues beyond the 1973-74 levels which were consequent upon the increase in world prices for petroleum and which, while not rising to world levels, increase as well, and are equalized to the extent of one-third. The new formula provides that half of all revenues from non-renewable resources would be equalized. All provincial revenues from renewable resources would continue to be equalized in full as they presently are.

Third, changes have been built into the formula to reduce existing possibilities for a province to influence its equalization entitlements by its own actions. In particular, a new revenue source, covering both corporate income taxes and the revenues derived from government business enterprises, has been established. The objective of this new grouping is to prevent a province's equalization entitlement from being significantly increased as a result of the province acquiring a privately-owned, profit-making corporation.

Finally, a partial ceiling has been built into the equalization formula for all natural resource revenues. This has been done to guard against a rapid increase in the costs of the equalization program resulting from such events as worldwide shortages or restrictions of supply that can affect resource revenues particularly. The way it has been done is by providing that the total amount of equalization payable in respect of all natural resource revenues may not exceed one-third of total equalization. The level of one-third is somewhat above the existing level and is unlikely to become applicable unless there is a very substantial increase in provincial revenues from oil and gas.

One final point on the equalization program, Mr. Speaker. I referred earlier to the importance of equalization in underpinning provincial financing. This can be illustrated by noting that payments under this single program regularly amount to about 25 per cent of gross general revenues in each of the four Atlantic provinces to more than 10 per cent in the case of Quebec and Manitoba and, on the average, to about 5 per cent in Saskatchewan. It is not possible to overestimate the impact that the equalization program has in the lower income provinces.

● (1410)

Part II of the bill provides for renewal of the fiscal stabilization program for a period of five years commencing April 1, 1977. It will replace the present one which expires on March 31, 1977. The purpose of revenue stabilization is to protect provinces from sudden year to year losses in revenue as a result of a severe economic downturn in the national economy or in their own economies. In essence, the program provides that where the total revenue of a province in any year is lower than its total revenue in the preceding year, it will receive a

stabilization payment equal to the shortfall. The comparison between the two years is made on the basis of common tax rates and structures. However, where the reduction occurs in respect of natural resource revenues, stabilization is applicable only if and to the extent that the reduction exceeds 50 per cent of such revenues for the previous year.

This latter provision—the 50 per cent threshold—has been added to prevent the possibility of making substantial stabilization payments to resource-rich provinces whose revenues could fall from present, or future, high levels as a result of declining volumes of production or reductions in the prices of resources. We do not feel we should ask the taxpayers of Canada generally to underwrite resource revenues, given their historic tendency to reach peaks from which sharp declines occur. The rapid increases in such revenues are, for the most part, unexpected; their subsequent declines are often foreseeable. They should be planned for by the provinces which are fortunate enough to receive them. This is not the kind of contingency that the stabilization program is intended to cover. While no payments have ever been made under the stabilization program, it has proved useful to the provinces when they have gone to the capital markets to raise funds.

Part III of the bill provides for continuation of the authority in the present act for the federal government to enter into tax collection agreements with the provinces. The only significant change here is that for the first time provision is made for bringing the two territories within the tax collection agreements. Under these arrangements the federal government collects, on behalf of all provinces except Quebec, the provincial personal income taxes they levy. It also collects, on behalf of all provinces except Ontario and Quebec, the corporation income taxes they impose, and it does so at no cost to the provinces except for a small fee, in the case of some provinces, for the administration of special rebates. This tax collection system has been used as the main tool to keep federal and provincial tax systems in harmony. The two provinces not party to the agreements have shown a willingness to keep their systems similar to the federal system, thus preserving harmony.

When the agreements were first initiated, income taxes levied by agreeing provinces were required to conform rather strictly to the federal tax law. In recent years, provinces have sought modification to their tax laws to permit them to implement their own social and economic policies. They requested that these modifications—tax credits, tax reductions, etc.—be accommodated within the terms of the tax collection agreements. These requests have been met where it was felt that departure from strict conformity with the federal law would not disturb or damage the national system. This is a clear demonstration of federal willingness to grant provinces the flexibility they want to determine their own fiscal policies. Obviously, the accommodation cannot go so far as to undermine the very objectives of a uniform tax system. But I think it is fair to say that no reasonable provincial request has been turned down.