

Oil and Gas

the bill as being the difference between actual revenues and basic revenues.

The second group of changes in equalization consists of a reclassification of oil and gas revenues into fixed groups known as "revenue sources", instead of the four groups the act now provides for. The result of reclassifying oil and gas revenues, along with accompanying changes in the measures of fiscal capacity which are used in calculating equalization, is to produce equalization payments which more accurately reflect the relative fiscal positions of the provinces. The consequence of these changes is to increase the amount of equalization payable. As of 1974-75, the increase is estimated at approximately \$30 million.

The proposed new revenue sources consist of Crown oil revenues—that is, revenues derived from lands for which the mineral rights are held by the Crown—freehold oil revenues, Crown gas revenues, freehold gas revenues, sale of Crown leases and reservations on oil and gas land and, finally, other oil and gas revenues. The main effect of this reclassification is to recognize freehold oil revenues and freehold gas revenues as separate categories, reflecting the new provincial practices of deriving revenue from these revenue sources. The purpose of reclassifying revenues in this way is to place them into relatively homogeneous groups, to each of which a measure of fiscal capacity can be fitted.

I now come to changes in part IV of the Fiscal Arrangements Act concerning the income tax revenue guarantee. This, too, is a technically complicated part of the legislation and I will have to go into some detail in order to explain the intended policy. Four changes are proposed in this program. The first change would clarify the situation respecting provincial revenue reductions resulting from the indexation of the personal income tax. Specifically, the legislation will make clear that the yield of the "actual" income tax system will not be calculated on the basis of personal exemptions and tax brackets being indexed.

The government's intent in this regard was made clear as long ago as May, 1973, at a federal-provincial meeting of finance ministers and treasurers. The Minister of Finance at that time indicated that the federal government viewed indexation as being a change which differed in substance from other tax changes made since 1972 which have been permitted to qualify for inclusion in the revenue guarantee. He emphasized that the only revenues which governments would forego as a result of indexation would be those arising from the effects of inflation on incomes. He stated that governments ought not to be in a position where they could finance additional expenditures out of inflation, and that it was inappropriate for the provinces to expect compensation for revenue reductions resulting from indexation. These remarks were made before the onset of the global inflation which has been experienced during the past year and one-half. They are even more relevant today.

Second, it is proposed that a new basis be used for calculating the revenue guarantee payment. The amount of such payment to a qualifying province for any given year is equal to the excess, if any, of the yield of the pre-reform income tax system, if it applied in that year, over the yield of the actual or post-reform income tax system in that year after making certain adjustments. As

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the act now reads, the actual yield from personal income taxes is determined on the basis of the provincial tax law, while corporation income taxes are based on the federal tax law. The bill proposes that all yields be determined with reference to the federal tax law.

This change is being proposed as a result of prospective divergences in federal and provincial income tax laws. Up to the present, differences between federal and provincial legislation have been very limited, particularly for provinces with tax collection agreements. Hon. members will recall that these are the agreements under which the federal government acts as the collector of provincial income taxes, provided the provincial tax law meets certain conditions respecting conformity with federal tax law.

At the December meeting of ministers of finance and provincial treasurers, the federal Minister of Finance announced that, while it was essential to preserve substantial uniformity between the federal and provincial tax systems, provinces with tax collection agreements could enjoy greater flexibility in modifying their systems and still have their taxes collected by the federal government. This offer was warmly received by the provinces. However, this greater flexibility will undoubtedly lead to various changes in provincial income tax laws during the remainder of the period to which the revenue guarantee applies which will move them out of line with the federal law.

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A possible result of this offer is that a province which qualifies for a revenue guarantee payment could be in a position to initiate a tax change which would have the effect of reducing the yield of its "actual" tax system, as presently measured, and hence of producing a corresponding increase in the amount of revenue guarantee payments to which it is entitled. The revenue guarantee was not intended to provide compensation to a province for a revenue loss arising from its own initiative in changing the tax system. At the same time, provincial tax changes which increase provincial yields could, under existing legislation, result in a reduction in the guarantee payment to the province. The proposed amendment would forestall both such results.

A third change in the revenue guarantee meets a commitment the Minister of Finance gave to the provinces last December. It would define the "actual" yield of the corporation income tax in such a way as to exclude the amount of any provincial rebates to taxpayers of the additional provincial revenue derived as a consequence of the non-expensing of provincial levies on oil, gas and minerals. This change would prevent sharp reductions in the revenue guarantee payments to provinces which make such rebates—notably including Saskatchewan, Alberta and British Columbia.

Finally, a fourth change would prevent provinces from receiving a larger revenue guarantee as a consequence of not having adopted federal tax changes made since 1972. This amendment is being proposed to meet situations where the federal government changes its own tax structure in such a way as to reduce its revenues and a particular province chooses not to follow suit. Such a province