

Table VII-1

Estimates of equalization payments calculated under a macro-economic formula and under a representative tax system formula when all provincial and municipal revenues are equalized. Based on 1980-81 data.

(\$ millions)

Equalization entitlement under:	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	TOTAL
a) Macro-economic formula*	469	97	548	475	1,107	(-230)	243	74	(-2,117)	(-592)	3,013
b) Representative tax system formula	512	122	659	568	2,885	(1,433)	509	(-401)	(-5,193)	(-739)	5,255**

* Based upon Adjusted Net Provincial Income at Factor Cost.

** Excludes Ontario's entitlement.

Source: Economic Council of Canada (using data provided by federal Department of Finance).

when a province decides to restructure its local tax system. It is possible for a province to increase or decrease property taxes levied for school purposes and to make offsetting changes in the level of property taxes levied for municipal purposes. This affects equalization entitlements because it modifies the amount of property tax revenues that, under the current formula, is subject to equalization. (This is precisely what happened in 1980 when Quebec changed its property tax regime. Although the changes did not affect the level of total property taxes in the province, there was a large decrease in revenues to be equalized, because the effect of the changes was to decrease property taxes for school purposes, which are included in the formula, and to increase property taxes for municipal purposes, which are not included. The result was that the six provinces that have positive equalization in respect of property taxes for school purposes saw their entitlements substantially reduced. Obviously, the equalization formula should be neutral with respect to the relative weights that provinces choose to give municipal and school property taxes. *The Task Force therefore recommends that*

property taxes for municipal purposes be included in full in the equalization formula.

Table VII-2 shows that all provinces currently receiving equalization would see their total entitlements increased by the inclusion of property taxes for municipal purposes. The effect on Saskatchewan's position with respect to equalization would be marginal. As regards Ontario, if that province were not excluded from receiving equalization through the personal income override (it is recommended further on in this chapter that the override be abolished), then its overall equalization entitlement would be significantly reduced by the inclusion of property taxes for municipal purposes. The reason for this is that the overall equalization entitlement of a province is equal to the *net* total of the positive and negative entitlements calculated in respect of all the revenue categories included in the representative tax system. Having a substantial property tax base relative to other provinces, Ontario has a fiscal capacity excess in this category, and this reduces its entitlement to equalization payments.

Table VII-2

Estimated and projected costs of equalizing property taxes for municipal purposes, 1979-80 to 1984-85

(\$ millions)

Fiscal Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.*	Man.	Sask.	Alta.*	B.C.*	TOTAL
1979-80 (Estimated)	47.7	9.7	54.0	47.1	141.1	-132.0	7.4	-1.4	-118.8	-54.7	±307.0
1980-81 (Estimated)	58.3	11.8	64.8	57.1	157.2	-164.7	4.8	-2.2	-132.0	-55.3	±354.1
1981-82 (Estimated)	64.6	12.9	70.8	62.7	160.8	-193.2	1.6	-2.4	-129.2	-48.5	±373.4
1982-83 (Projected)	75.3	14.8	82.2	74.5	175.2	-157.0	10.3	0.3	-205.9	-69.7	±432.6
1983-84 (Projected)	85.6	16.5	92.6	85.0	184.3	-147.2	14.0	2.1	-254.8	-78.0	±480.0
1984-85 (Projected)	96.7	18.4	103.7	96.6	192.2	-131.5	18.3	4.4	-312.3	-86.6	±530.4

* Note that since Ontario, B.C. and Alberta do not receive equalization payments, the negative values shown there do not reduce the federal outlays for equalization purposes.

Source: Federal Department of Finance.