

The 1982 amendments to EPF eliminated both the transitional payments and the per capita inequality among the provinces. The revised EPF was to be calculated in the following way.

1. A Canada-wide, per capita transfer by the federal government to all provinces for all three programs in a base year (1975-76) was calculated.
2. The per capita federal transfer in the base year was separated into education and health components on the basis of 67.9 per cent health and 32.1 per cent education.
3. The base year per capita figure was increased each year by a three-year moving average of GNP on a per capita basis; this determined the per capita entitlement for each province in each subsequent year, except for 1983-84 and 1984-85 when the growth rate of 6 per cent and 5 per cent applied. (This "6 & 5" ceiling on the cash was part of the 1984 changes to EPF.)
4. The per capita entitlement to each province was multiplied by its population to determine its current entitlement.
5. The equalized tax transfer of 13.5 personal and 1.0 corporate tax points to each province was split between education and health on the basis of 67.9 per cent health and 32.1 per cent education.
6. The cash payments were determined by deducting the equalized tax transfer applicable to education from the total entitlements.

These changes meant that the cash transfer became a residual; it no longer grew independently at a rate tied exclusively to changes in GNP, but at a rate determined in part by the GNP escalator for the total transfers and in part by the rate of growth in personal and corporate income taxes.

The 1982 changes also saw the end of the revenue guarantee compensation, which had been introduced as a result of the reform of the federal income tax law, effective January 1972. Because most provincial tax yields were based upon federal tax yields, in order to leave their tax revenues unchanged as a result of the 1972 tax reform it was necessary for the provincial governments to alter their tax rates. The federal government agreed to calculate the new rates for each participating province. Because such estimates would be inaccurate, the federal government agreed to guarantee that the provinces would receive at least as much as if the 1971 tax system had been continued. The term of the guarantee was five years.

In the 1976 negotiations leading to EPF, the federal government proposed to go ahead with the termination of the revenue guarantee