

growth in the post secondary education operating costs of all provinces. For these provinces the per capita grant is more favourable than the 50 per cent sharing.

Total federal contributions for post secondary education, which are subject to a ceiling of a 15 per cent annual increase, take the form of a combination of tax and cash transfers. The tax component takes the form of transferring to the provinces 4.357 personal income tax points plus one corporate income tax point, both equalized to the national average. These tax points are now built into the income tax systems as provincial revenues. The difference between the amount of the provincial entitlement and the value of the tax points is made up in cash. In the current fiscal year, federal contributions to the provinces for post secondary education amount to more than one billion dollars, \$608 million in tax points and \$459 million in cash.

Last spring the federal government proposed a set of alternative financing arrangements to the provinces designed to meet provincial criticisms of existing arrangements. The provinces claimed that the federal program was intruding upon provincial administration of post secondary education and distorting provincial priorities. Generally, they argued, that they lacked the freedom and flexibility they needed to develop their own programs as they saw fit. In response to these criticisms, the federal government proposed a new system of determining federal contributions which dissociated the federal payments from the costs actually incurred. Payments were to be determined by a formula based on the growth rate of the population between 18 and 24 years of age and an escalation factor, which together would result in an overall growth rate in federal contributions roughly equal to the expected growth in the gross national product.

Under this proposed system, the basis for the alleged federal interference in provincial post secondary education programs would be removed. However, the proposal was not accepted by the provinces and the Prime Minister (Mr. Trudeau) informed them that the federal government would be prepared to extend the existing arrangements for an additional three years. The present amendment extends the term of the existing arrangements to March 31, 1977. These arrangements will, therefore, expire at the same time as other programs under the Fiscal Arrangements Act. Further thought will be given to the appropriate role for the federal government in this area in the period beyond 1977. I might note that with the passage of time, as the dollar value of both the personal and the corporate income tax points rises, the amount of the federal contribution paid in the form of cash will diminish and eventually disappear. The tax points will then finance the entire federal contribution.

Perhaps I might call it one o'clock and deal with the third and fourth changes after the break.

Some hon. Members: Agreed.

At one o'clock the House took recess.

AFTER RECESS

The House resumed at 2 p.m.

Federal-Provincial Fiscal Arrangements Act

Hon. John N. Turner (Minister of Finance): Mr. Speaker, before we broke for lunch I was describing the four changes embodied in this bill. The third relates to Part IV of the fiscal arrangements act. This part assures that provinces conforming to our income tax legislation will obtain at least as much revenue from the combined yields of the personal and corporate income taxes, including associated equalization, for the five year period 1972 to 1976 as they would have obtained were the pre-tax reform structure still in effect. The purpose of this revenue guarantee provision was to encourage the provinces to keep their income tax legislation in harmony with the reformed federal income tax law.

In order to discourage provinces from creating possible confusion by raising their income tax rates at January 1, 1972, above the specified "break-even" rates associated with tax reform, the fiscal arrangements act provided that any province doing so would be ineligible for revenue guarantee payments for the full five year duration of the guarantee. The province of Nova Scotia, at the time the fiscal arrangements act was passed in 1972, raised its personal income tax rates above that specified in the legislation. It accepted full responsibility for this step, and has continued to harmonize its income tax legislation with that of the federal government. However, because of the provisions of the act it rendered itself ineligible for the revenue guarantee.

In the light of subsequent developments, a five-year forfeiture of eligibility for revenue guarantee payments now seems unwarranted. The provinces could not have foreseen, at the end of 1971, the federal budgetary measures in effect for 1972 and 1973 which have a significant effect on provincial revenues. I propose, therefore, that the existing five year ineligibility period be reduced to one year.

[*Translation*]

The fourth and final change embodied in the bill is a technical adjustment to the Income Tax Act and the Federal Provincial Fiscal Revision Act which will permit the continuation of the tax point abatement in Quebec as part of its fiscal system which has been in operation for about 10 years. A special abatement of three points of personal income tax was accorded to Quebec taxpayers in 1964 when the federal Youth Allowances program was introduced.

At that time Quebec already had a similar program in operation for its 16 and 17 year olds. In order to meet this situation, the federal government provided that if a province had a similar program in operation before the commencement of the federal program, that province could continue the provincial program and be "prescribed" under the act as a province qualifying for special contributions towards the cost of its own program through the Income Tax Act. The Income Tax Act was amended to allow taxpayers in a "prescribed" province to deduct 3 per cent from the basic federal tax. Quebec took advantage of this provision and was prescribed. This permitted the Quebec government to raise the provincial tax by an equivalent amount without increasing the net burden on Quebec taxpayers. In addition, the Fiscal Revision Act provided for an adjusting payment or recovery to ensure that the total federal contribution of such a province