

3rd Quarter Financial Report

BACKGROUNDERS

February, 2002



SASKATCHEWAN
The Hon. Eric Cline
Minister of Finance

CORPORATE INCOME TAX

Saskatchewan Finance Backgrounder...

Description

Saskatchewan's Corporate Income Tax is administered by the Canada Customs and Revenue Agency (CCRA) under the Canada-Saskatchewan Tax Collection Agreement.

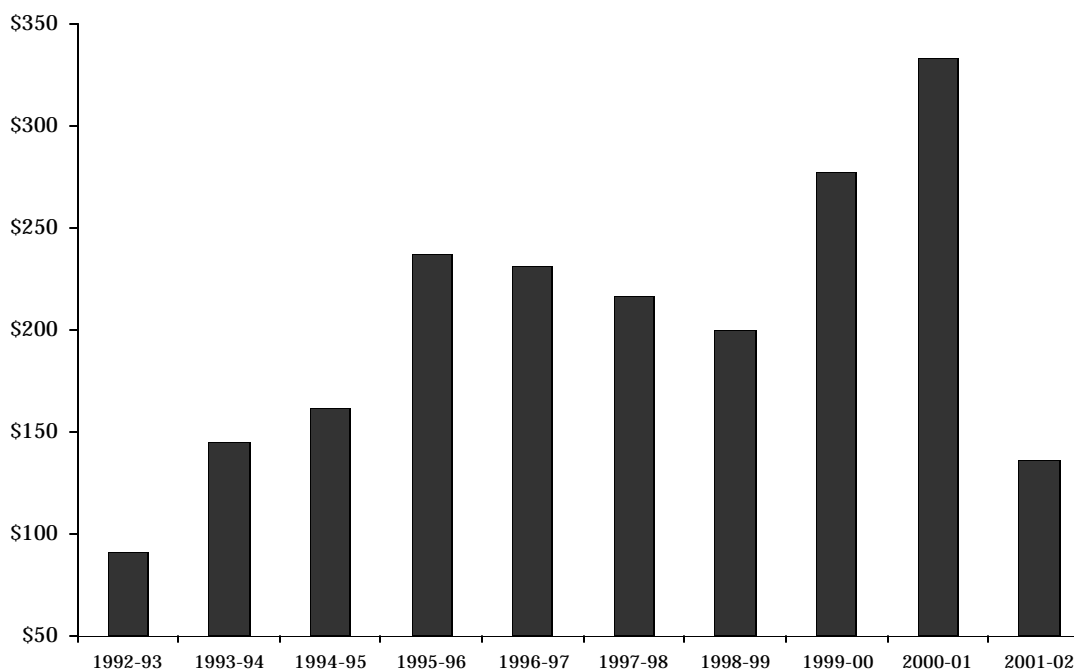
Since the assessment of corporate taxes is not finalized until after the end of the taxation year, the federal government estimates the total Saskatchewan corporate taxes for a tax year and remits this amount to the Province in monthly instalment payments throughout the taxation year. These payments are subsequently reconciled to actual entitlements once the assessment of tax returns for that tax year is complete. In 2001-02, this adjustment is in respect of assessments for the 2000 taxation year.

The CCRA has experienced significant processing difficulties in handling the 2000 corporate tax returns. As of December 31, 2001, about 15 per cent of corporate returns for that taxation year still remain to be processed, resulting in reduced provincial entitlements for the 2000 tax year and a corresponding reduction in 2001-02 revenues.

Volatility of Corporate Income Tax Revenues

Corporate Income Tax revenues have been extremely volatile throughout Canada. This is largely due to the fluctuating economic conditions facing corporations and the ability of corporations to apply deductions and prior year losses in other taxation years under the national Corporate Income Tax system. The following chart illustrates the volatility in Saskatchewan's Corporate Income Tax revenues over the past ten years, with a high of \$333.3 million in 2000-01 and a low of \$91.5 million in 1992-93.

Saskatchewan Corporate Income Tax Revenues
(\$ millions)



2001-02 3rd Quarter Financial Report

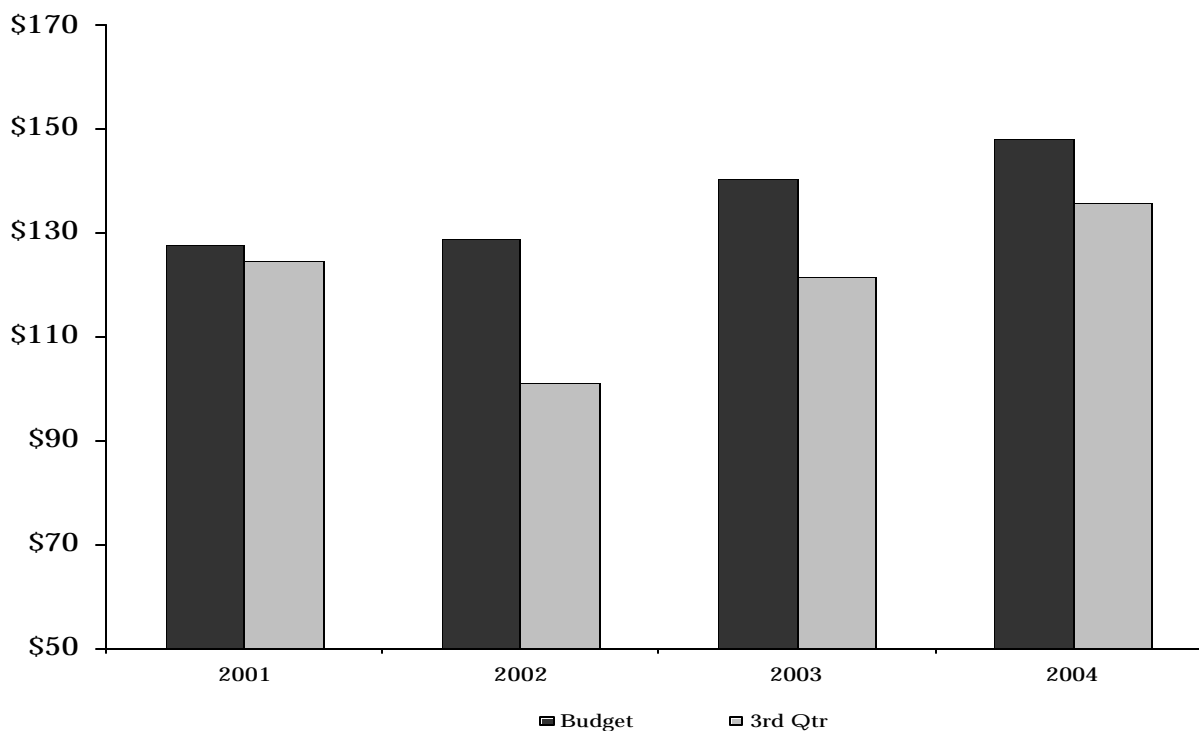
Corporate Income Tax Receipts (\$Million)			
2000-01	2001-02	2001-02	2001-02
Public Accounts	Budget Estimate	Mid-Year Forecast	3rd Quarter Forecast
333.3	273.1	271.0	136.6

Saskatchewan's budget estimate of \$273.1 was lower than last year's actual receipts due to the tax reductions announced in the 2001 Budget, the expectation that Saskatchewan had been overpaid for the 2000 taxation year and the expectation of reduced national and Saskatchewan corporate profits in 2001.

Saskatchewan's 2001-02 third quarter forecast is \$135.6 million lower than the budget estimate due to three factors:

- the CCRA's processing difficulties in completing the 2000 tax year corporate tax assessments by the end of 2001 has resulted in a smaller corporate tax base for provincial payment purposes;
- Saskatchewan's share of the assessed tax returns is lower than forecast; and,
- federal projections of corporate taxable income for the 2001 and 2002 taxation years (and over the medium term) have recently been significantly reduced. For the 2002 taxation year, the national corporate taxable income base is forecast to decline by 25.3 per cent over the previous forecast.

Forecasts of the National Corporate Tax Base
(\$ billions)



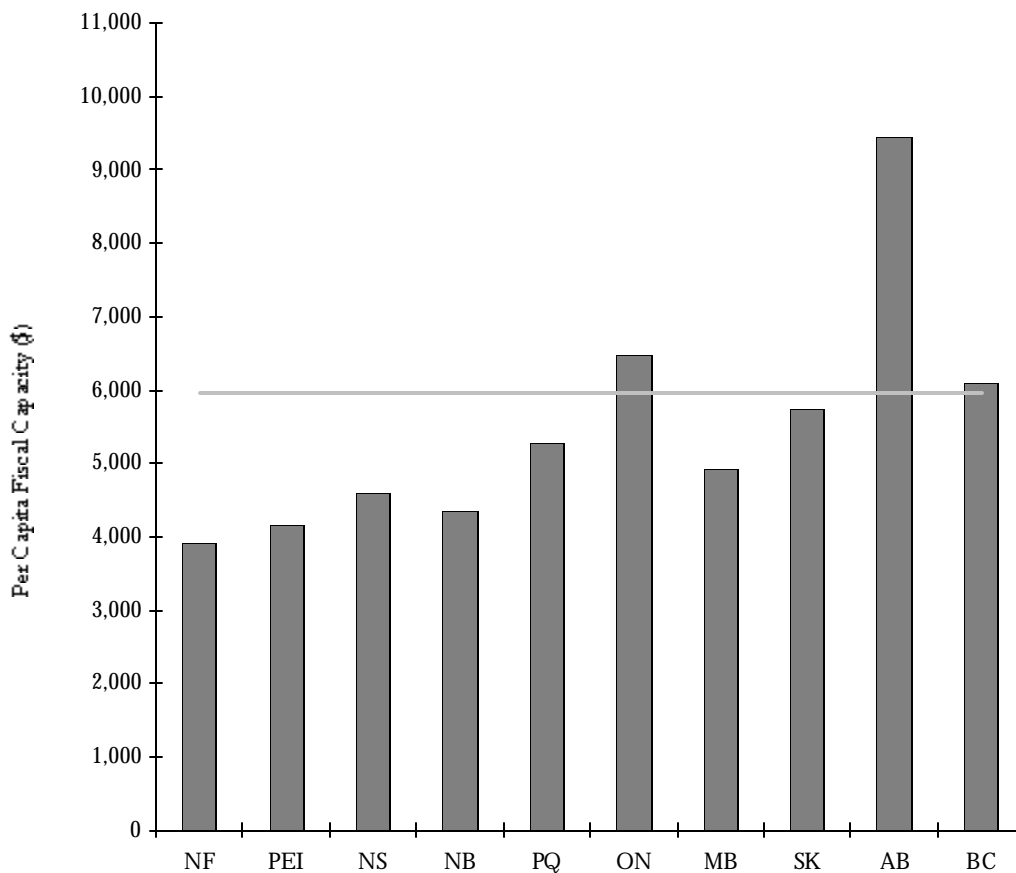
2001-02 EQUALIZATION

Saskatchewan Finance Backgrounder...

While the concept of equalization has been part of Canada's fiscal system since Confederation, the program was formally introduced in 1957 and the principle of equalization was enshrined in the *Constitution Act, 1982* as a federal responsibility.

The Equalization program measures how well provinces can raise revenues relative to one another. This is accomplished through a complex formula that measures each province's per capita fiscal capacity based on 33 separate revenue sources. Provinces with an above average revenue raising capacity (i.e., those above the standard) are designated "have" provinces - currently British Columbia, Alberta and Ontario - while those with a lower than average revenue raising capacity are designated "have not" provinces - currently the seven remaining provinces, including Saskatchewan. The "have not" provinces are entitled to receive Equalization payments from the federal government.

2001-02 Per Capita Fiscal Capacities



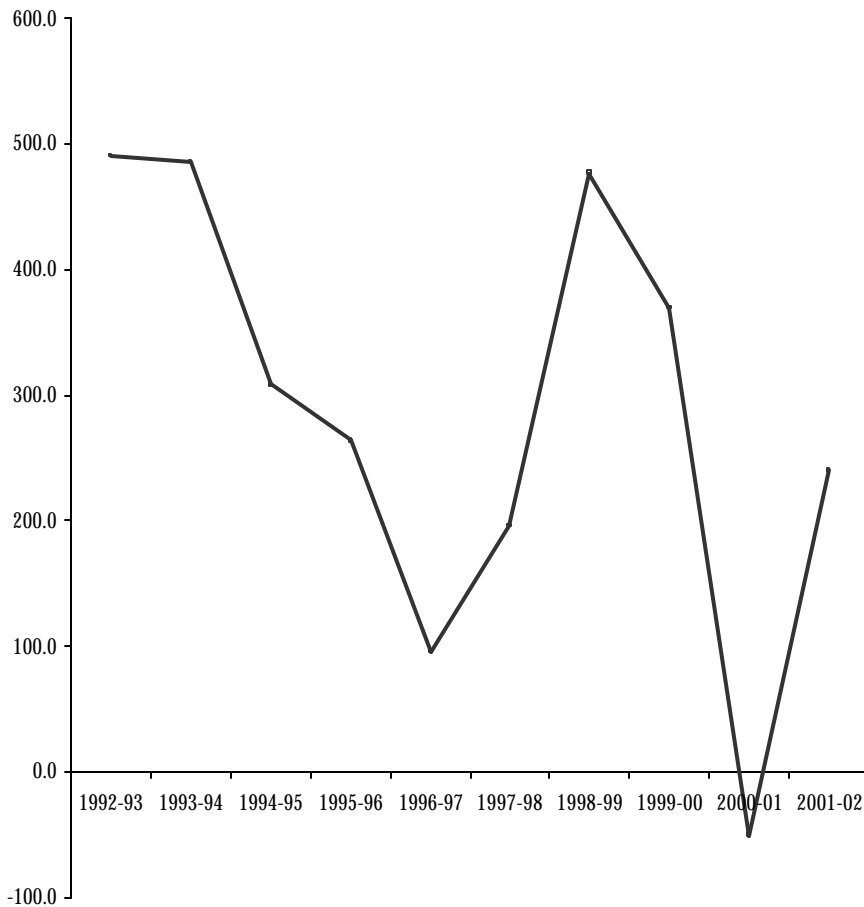
Source: October 2001 federal estimates for 2001-02.

The "have not" provinces receive differing Equalization payments depending on the strength of their economy and revenue raising capacity relative to that of the five provinces in the standard (i.e., British Columbia, Manitoba, Saskatchewan, Quebec and Ontario). Historically, Saskatchewan receives the lowest per capita Equalization of the receiving provinces.

Saskatchewan's Equalization entitlements have varied significantly over the years. The following graph provides an illustration of the volatility of Saskatchewan's Equalization entitlements over a ten-year period. These entitlements differ from annual Equalization receipts due to prior year adjustments and the impact of the floor and ceiling provisions (the floor provision limits a province's year-over-year decline in entitlements and the ceiling provision limits the growth in total entitlements paid by the federal government).

Saskatchewan's Equalization Entitlements

(Millions)



2001-02 Third Quarter Financial Report

Equalization for 2001-02 is projected to be \$434.2 million, an increase of \$57.2 million, or 15.2 per cent, from the Budget Estimate of \$377.0 million.

- The decline in corporate taxable income and natural gas revenues results in an increase in Saskatchewan's Equalization entitlement.
- Partly offsetting this increase is a reduction in Equalization entitlements associated with an expected decline in overall provincial revenues on a national basis, data revisions that result in a net decrease in prior year receipts and the estimated impact of the federal ceiling clawback on 2000-01.

Equalization for 2001-02 is projected to be \$133.0 million, or 44.2 per cent, higher than the Mid-Year Projection. This increase is primarily due to the decline in corporate taxable income and new economic data for certain Equalization bases, both of which increase Saskatchewan's Equalization entitlement.