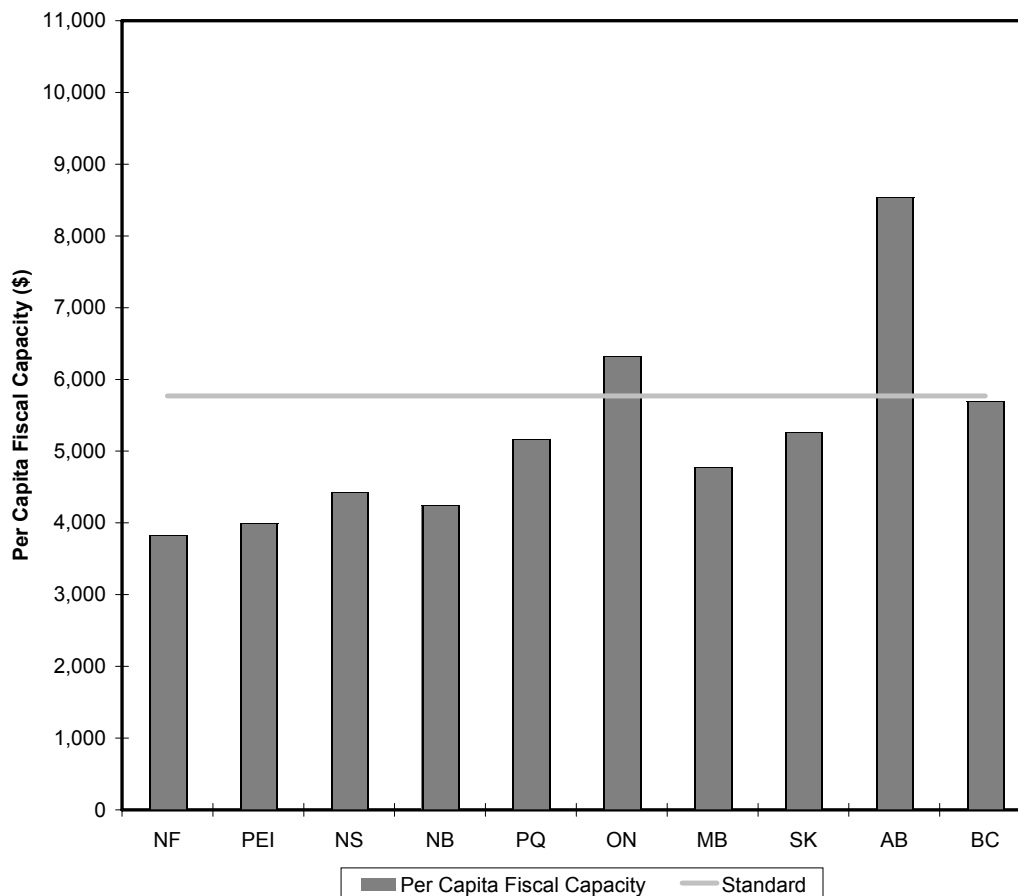


## 2002-03 EQUALIZATION

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 Alberta and Ontario - while those with a lower than average revenue raising capacity are designated "have not" provinces - currently the eight remaining provinces, including Saskatchewan. The "have not" provinces are entitled to receive Equalization payments from the federal government.

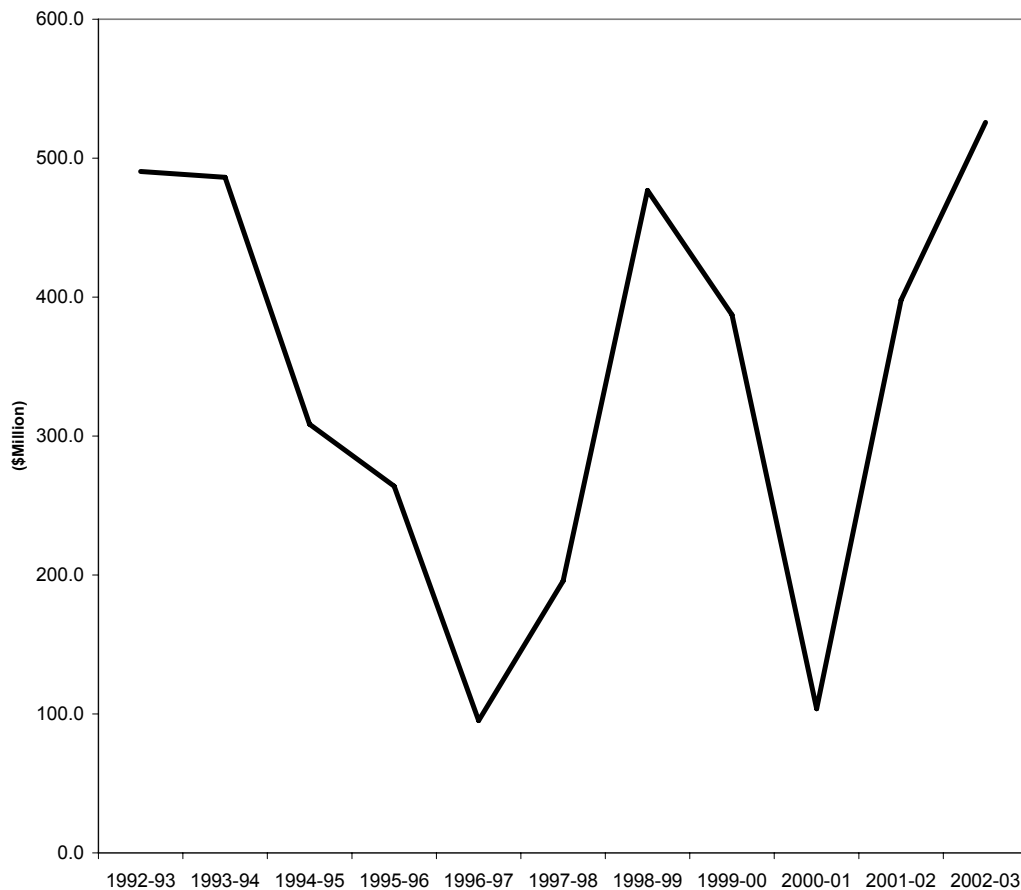
2002-03 Per Capita Fiscal Capacities



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, although British Columbia has recently become a "have not" province.

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



Equalization Receipts (\$ Millions)			
2001-02 Budget Estimate	2001-02 Mid-Year Forecast	2001-02 Revised Forecast	2002-03 Budget Estimate
377.0	301.2	492.0	530.7

**The 2002-03 Budget Estimate is \$38.7 million (7.9 per cent) higher than the 2001-02 Forecast.**

- An increase in the entitlement associated with the significant decline in oil and natural gas revenues in 2002-03 will be partly offset by a decrease in the entitlement associated with the expected decline in corporate income tax revenues nationally.
- Prior-year adjustments are expected to be lower in 2002-03 as the benefit associated with removal of the ceiling on 1999-00 entitlements is being realized largely in 2001-02.

**The 2002-03 Budget Estimate is \$153.7 million (40.8 per cent) higher than the 2001-02 Budget Estimate and \$229.5 million (76.2 per cent) higher than the Mid-Year Report.**

- The increase reflects the significant decline in oil and natural gas revenues in 2002-03 and other changes in economic and fiscal data (including changes in Statistics Canada's methodology in measuring bases).
- Prior-year adjustments are expected to be lower in 2002-03 as the benefit associated with removal of the ceiling on 1999-00 entitlements is being realized largely in 2001-02.

## CORPORATE INCOME TAX

### Description

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

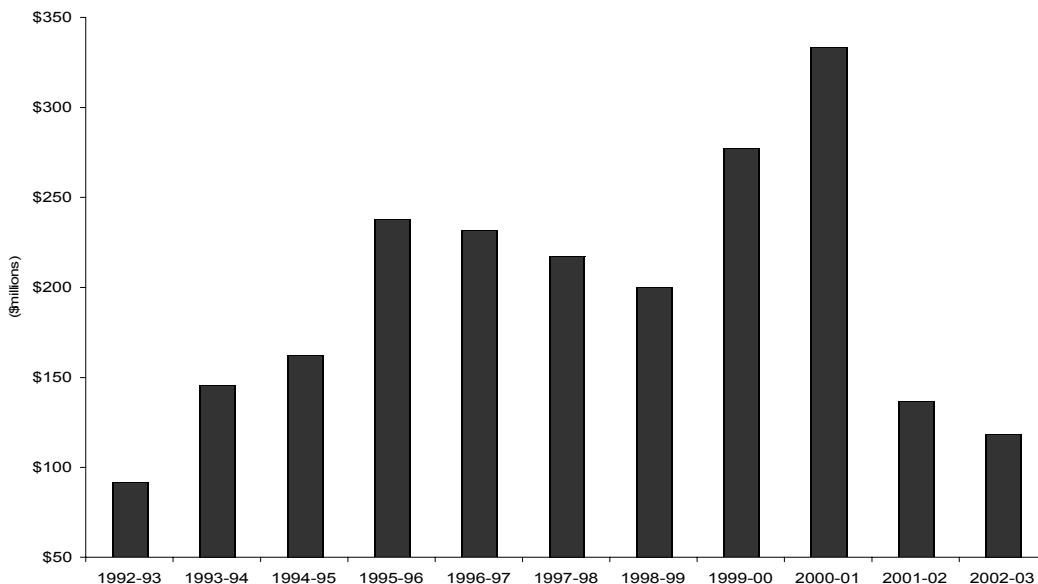
Since the assessment of corporate taxes is not finalized until after the end of the taxation year, the federal government estimates the total Saskatchewan corporate taxes for a tax year and remits this amount to the Province in monthly instalment payments throughout the taxation year. These payments 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



Corporate Income Tax Receipts			
2001-02 Budget Estimate	2001-02 Mid-Year Forecast	2001-02 Revised Forecast	2002-03 Budget Estimate
\$273.1 million	\$271.0 million	\$136.6 million	\$118.5 million

Saskatchewan's 2001-02 Revised Forecast has declined significantly from the 2001-02 Budget Estimate, primarily due to the following 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; and
- Saskatchewan's share of the assessed tax returns is lower than forecast.

A further decline in corporate income tax revenue is expected in 2002-03. Federal projections of corporate taxable income for the 2001 and 2002 taxation years (and over the medium term) have been significantly reduced since the 2001-02 Budget. For the 2002 taxation year:

- national corporate taxable income is forecast to decline by 21.6 per cent from the previous forecast; and,
- the year-over-year decline from the 2001 taxation year is estimated to be 18.9 per cent, or \$23.5 billion in national corporate taxable income.

Forecasts of the National Corporate Tax Base

