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# IN BRIEF

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## Canada's Fiscal (Im)balance: Revenues and Expenditures

### How Balanced is the Financial Framework of the Canadian Federation?

Canada is currently in the midst of a debate over the financial framework of the federation. The provinces have complained that they lack sufficient revenues to meet their growing spending responsibilities; the federal government counters by arguing that both levels have full access to all major revenue sources. Below is a summary of the revenue sources and spending responsibilities of both the federal and provincial governments.

#### Revenues

In the area of taxation, both levels of government have full access to all major tax fields. In fact, the only restriction placed on provincial governments is that they are not allowed to tax international or interprovincial trade. However, the two levels of government do not occupy the same share of these tax fields. Table 1 and Figure 1 illustrate this for the 2000-2001 fiscal year.

**Table 1 – Federal and Provincial Revenues, 2000-2001**

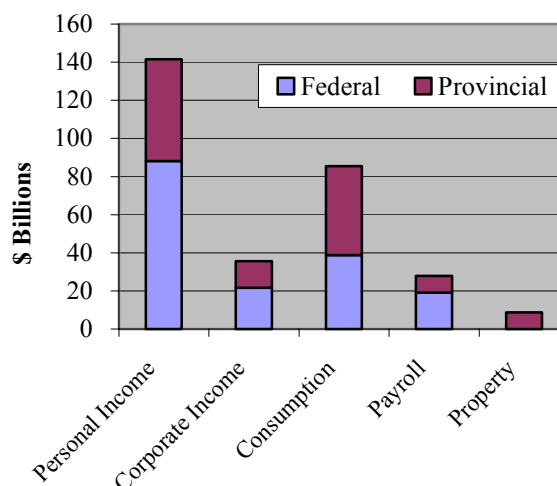
	Federal		Provincial	
	Amount \$ Billions	% of Total Revenue	Amount \$ Billions	% of Total Revenue
Personal Income Taxes	88.2	46.3	53.3	25.0
Corporate Income Taxes	27.6	14.5	14.0	6.5
GST/PST/HST	27.7	14.5	27.5	12.9
Other Consumption Taxes	11.1	5.8	19.1	9.0
Property and Related Taxes	0.0	0.0	8.7	4.1
Other Taxes	0.5	0.3	15.0	7.0
Social Insurance/Payroll	19.1	10.0	8.8	4.1
<b>Total Tax Revenues</b>	<b>174.2</b>	<b>91.5</b>	<b>146.3</b>	<b>68.6</b>
Sales of Goods/Services	4.3	2.2	7.6	3.5
Investments and Royalties	6.6	3.5	26.8	12.6
Federal Transfers	0.0	0.0	31.7	14.9
<b>Total Revenues</b>	<b>190.4</b>	<b>100.0</b>	<b>213.4</b>	<b>100.0</b>

Source: Statistics Canada, CANSIM II, Table 385-0002.

Notes: Federal and provincial total revenues exceed total government revenues due to transfers.  
Some non-tax revenue sources have not been listed; therefore, sums may not equal totals.

Quebec is the only province in which the provincial share of personal income tax (PIT) exceeds the federal share. This dates back to 1965 when Quebec accepted additional PIT tax room in lieu of federal transfers. While the federal government collects roughly 65% of all PIT in the nine other provinces, approximately 48% of PIT goes to the federal government in Quebec.

**Figure 1 – Federal-Provincial Share of Taxes**



Source: Canadian Tax Foundation, *Finances of the Nation*, 2001.

As illustrated in Table 1, tax revenues account for a much larger portion of revenue at the federal level than at the provincial level. However, non-tax revenues, such as investment income, the sale of goods and services, natural resource royalties, and licences and permits, account for roughly 30% of total provincial revenues while they account for less than 10% of federal revenues. To help in the financing of programs and services, provinces also receive a portion of their total revenues from unconditional and block transfers from the federal government. In 2000-2001, this portion ranged from 41.6% of total revenues in Newfoundland to 7.6% in Alberta.

## Expenditures

The provinces are constitutionally responsible for the areas of education, health care and social services, and these responsibilities account for the vast majority of provincial spending. The federal government also shares in the direct provision of social services in addition to its spending on protection, defence, transportation, communications, resource conservation, industrial assistance, and transfers to the provinces. Both levels of government must also make public debt payments. Table 2 lists the most significant expenditures at the two levels of government.

**Table 2 – Federal and Provincial Expenditures, 2000-2001**

	<i>Federal</i>		<i>Provincial</i>	
	Amount \$ Billions	% of Total Expenditure	Amount \$ Billions	% of Total Expenditure
Health	2.9	1.6	61.6	30.5
Social Services	51.6	28.4	31.8	15.7
Education	4.8	2.7	40.6	20.1
Protection/Defence	19.2	10.6	7.1	3.5
Federal Transfers	31.7	17.5	0.0	0.0
Debt Charges	45.0	24.8	28.8	14.3
<b>Total Expenditures</b>	<b>181.3</b>	<b>100.0</b>	<b>201.8</b>	<b>100.0</b>

Source: Statistics Canada.

Notes: Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) are not included.

Some expenditures have not been listed; therefore, sums may not equal totals.

As a share of provincial spending, health care expenditures are the most important and have risen from 26.8% in 1991-1992 to 30.5% in 2000-2001. Measuring the federal share of health care expenditures is more difficult. Federal health expenditures listed in Table 2 do not include financial

support for provincial health care costs under the Canada Health and Social Transfer (CHST) (the cash portion of this transfer is included under “Federal Transfers”). Since the CHST is a block transfer, the provinces themselves determine the amount of the transfer to be allocated to health care. Equalization-receiving provinces may also apply a portion of the Equalization transfer to health care expenditures. As for direct health care spending, the federal government is responsible for providing health services for First Nations and Inuit, conducting research, and providing quarantine and immigration health services.

In the area of social services, the provinces are responsible for providing social assistance, while the federal government is responsible for Employment Insurance (EI), income security programs such as Old Age Security (OAS), Guaranteed Income Supplement (GIS), child benefits, and programs for veterans and First Nations and Inuit, as well as assisting the provinces through the CHST. Each province is responsible for its own education system. The federal government provides support for education through the CHST, and is also responsible for the education of First Nations and Inuit, armed forces personnel and penitentiary inmates.

Compared to other federal countries, the Canadian federation is highly decentralized on both the expenditure and tax fronts. Both the federal and provincial governments have the constitutional power and independence to make their own choices about taxes, spending and debt.