Tax Points

'Tax points' came to prominence with the *Federal-Provincial Fiscal Arrangements Act* of 1961 (see the current *Federal-Provincial Fiscal Arrangements Act*, R.S.C. 1985, c. F-8.) when the federal and provincial governments converted from the tax rental arrangements (which originated during World War II) to separate federal and provincial personal and corporate income taxes (PIT and CIT). The federal government reduced its personal and corporate incomes taxes to make room for the newly established provincial taxes. The federal PIT abatement started at sixteen percent of the Basic Federal Tax (BFT) payable. PIT tax points are measured as a percentage of BFT and as of 2001, provincial personal income tax rates have been expressed as a percentage of the BFT. The federal CIT abatement was initially 9 percent of corporate taxable income (*not tax payable*, as with the PIT). With the federal abatement, the provinces introduced their own taxes at offsetting or higher rates.

'Tax points' took on a renewed relevance with the Federal-Provincial Fiscal Arrangements of 1977, when the federal transfer programs in support of health-care and post-secondary education were converted from cost sharing to a block transfer under the new Established Program Financing (EPF) transfer. EPF funding to the provinces was a combination of cash transfers and tax point transfers that would provide each province the same per capita support for health care and post secondary education. The value of the tax abatement, which made room for increased provincial taxes, varied by province and the cash payment made up the difference to the uniform per capita amount. Although the provinces raised the additional taxes from the federal abatement to support the EPF programs themselves, the federal government counted that revenue as part of the federal transfer. That practice continued with the conversion of the EPF and the federal Canada Assistance Plan (CAP) into the new Canada Health and Social Transfer (CHST) in 1996. That is, the cash transfer to each province under the CHST is affected by the provincial revenue generated from the federal tax abatement originating with the EPF transfers.

Sources:

- P.A.R. Hobson & F. St-Hilaire, "The Evolution of Federal-Provincial Fiscal Arrangements: Putting Humpty Together Again" in H. Lazar, ed., *Towards a New Mission Statement for Canadian Fiscal Federalism* (Kingston: Institute of Intergovernmental Relations, Queen's University, 2000) 159.
- D.B. Perry, *Financing the Canadian Federation, 1987 to 1995: Setting the Stage for Change* (Toronto: Canadian Tax Foundation, 1997).
- J.H. Perry, *A Fiscal History of Canada -- The Postwar Years* (Toronto: Canadian Tax Foundation, 1989).
- J.C. Strick, *The Public Sector in Canada* (Toronto: Thompson Educational Publishing, 1999).