



# Information

## What Is Equalization?

Equalization is the federal government's most important program for reducing fiscal disparities among provinces. Federal Equalization payments enable less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation.

Equalization payments are unconditional – receiving provinces are free to spend the funds on public services according to their own priorities.

Equalization payments are formula-driven and go up and down depending on the relative fiscal performance of provinces, not because the federal government 'increased' or 'decreased' them.

New estimates for Equalization are undertaken every six months. Each estimate incorporates new and updated economic, fiscal and population data, which results in more accurate measurement of the difference between each province's revenue-raising capacity and the Equalization standard, i.e. the gap that Equalization payments fill so that receiving provinces can provide comparable services to their residents at similar levels of taxation.

According to the February 2004 Estimates, provinces will receive approximately \$9.7 billion in Equalization payments from the federal government in 2004-05. This means that all provinces will have access to revenues of at least \$6,126 per resident to fund public services. Currently, eight provinces qualify for Equalization:

### Equalization Entitlements – (2004-05) (\$ millions)

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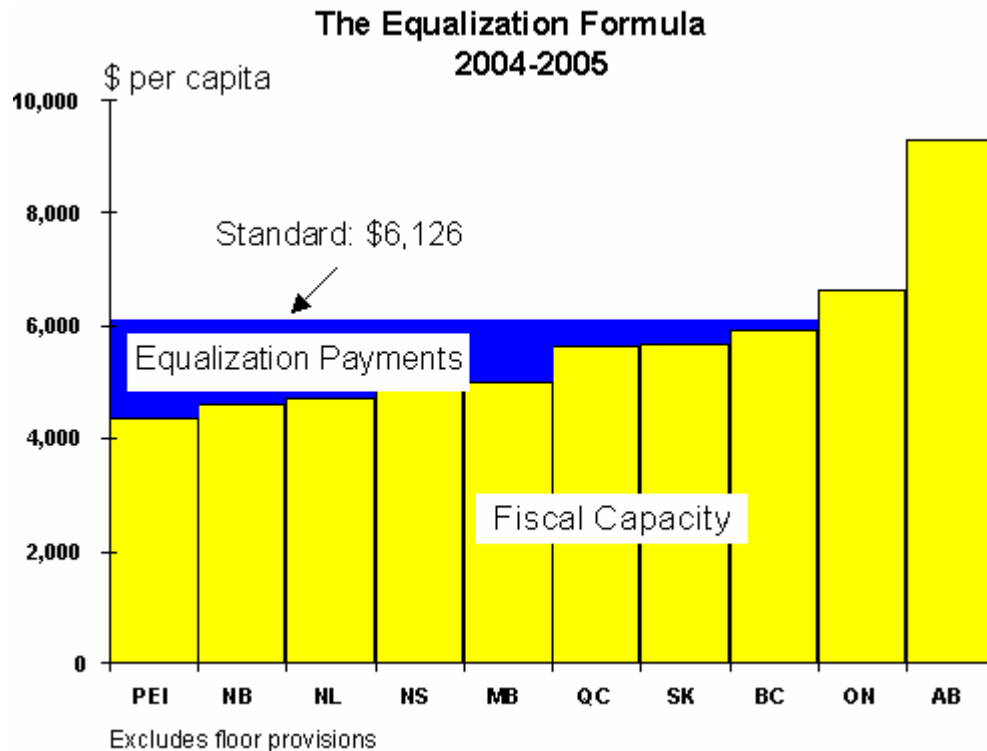
PEI	NB	NL	NS	MB	QC	SK	BC	Total
246	1,155	726	1,146	1,341	3,761	462	824	9,660



## How Equalization Payments Are Calculated

Equalization payments are calculated according to a formula set out in federal legislation and regulations. Provinces with revenue-raising ability, or *fiscal capacity*, below a threshold or *standard* amount receive Equalization payments from the federal government to bring their revenues up to that standard:

- The *fiscal capacity* of a province is a measure of its ability to raise revenues from more than 30 revenue sources – including personal income tax, corporate income tax, sales taxes, resource royalties property tax and other sources – assuming that province has average tax rates.
- The *standard* measures the average fiscal capacity of the five “middle income” provinces – Quebec, Ontario, Manitoba, Saskatchewan and British Columbia. The five-province standard was introduced after significant volatility in resource revenues in the 1970’s, which generated large fluctuations in Equalization entitlements due to unstable oil and gas prices.



Equalization payments are subject to a “floor” provision, which protects individual provinces against any large year-to-year declines in its payments.

## **Equalization Renewal**

New Equalization legislation is tabled by the Minister of Finance and approved by Parliament every five years, following extensive federal-provincial consultations.

This renewal of the legislation ensures that the program remains up-to-date and that the best possible calculations and data are used to determine Equalization payments.

The Government of Canada recently renewed the Equalization program for another 5 years, making technical changes to tax bases and improvements to provide greater stability of payments. As a result of these changes, provinces are expected to receive an additional \$1.5 billion in Equalization entitlements over the next 5 years.

Further to the 2004 renewal the Government of Canada has committed to undertaking a full review of the Equalization program, including the treatment of natural resources within the program.

For additional information, see the Department of Finance Web site – [www.fin.gc.ca](http://www.fin.gc.ca).