



Parliamentary Information and Research Service  
Library of Parliament

# IN BRIEF

Ce document est également publié en français

James Gauthier and Shahrzad Mobasher Fard  
Revised 23 July 2009

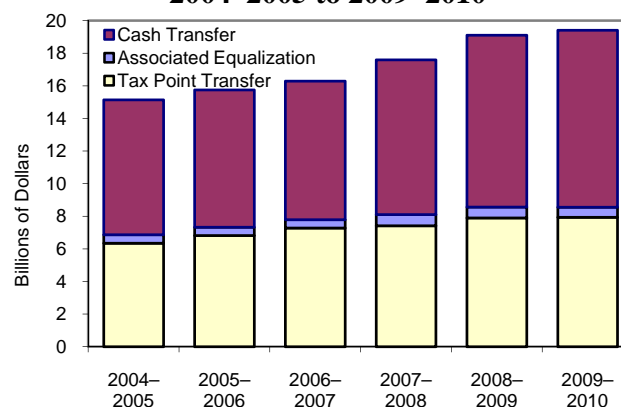
## The Canada Social Transfer

The primary federal contribution in support of provincial programs related to post-secondary education, social assistance and social services, and programs for children in Canada is provided through the Canada Social Transfer (CST). The CST was established in 2004 when the Canada Health and Social Transfer was split into two transfers: the CST and the Canada Health Transfer. The CST comprises two components: a cash transfer and a tax point transfer (plus associated equalization; see below). Figure 1 presents the total CST entitlement (cash plus tax) for fiscal years 2004–2005 to 2009–2010.

The value of the cash transfer is determined by a funding formula and is legislated under the *Federal-Provincial Fiscal Arrangements Act*.<sup>(1)</sup> Cash payments amounted to \$8.28 billion in 2004–2005, \$8.415 billion in 2005–2006, \$8.5 billion in 2006–2007, \$9.487 billion in 2007–2008, \$10.537 billion in 2008–2009, and \$10.853 billion in 2009–2010; starting in 2009–2010, they increase at a rate of 3% per year until 2013–2014.

The tax point transfer component of the CST dates back to 1977 when the federal government agreed to reduce its personal and corporate tax rates by 13.5 percentage points and 1 percentage point respectively, thereby allowing provincial governments to occupy that tax room. Since tax points are worth more in some provinces than others, the federal government also agreed to equalize the tax points on an ongoing basis. The annual amount paid to equalize these tax points (approximately \$1.6 billion in 2009–2010) is called “associated equalization” – because it is the Equalization amount “associated” with the tax point transfer.<sup>(2)</sup> Since economic conditions affect personal and corporate income tax bases, the tax point transfer component of the CST fluctuates over time.

**Figure 1 – Total CST Entitlement,  
2004–2005 to 2009–2010**



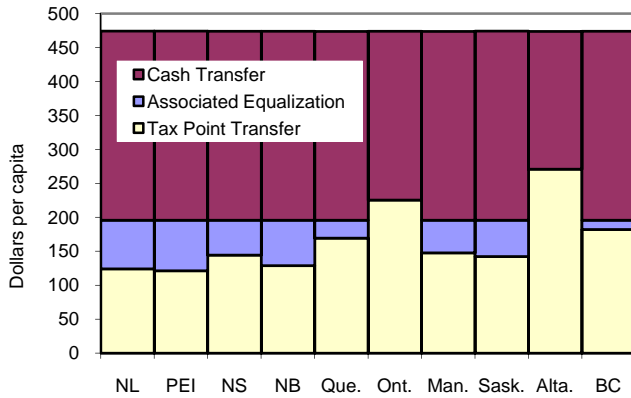
Source: Based on authors’ calculations and data obtained from the Department of Finance Canada’s Federal-Provincial Relations Division on 21 July 2009. CST estimates follow a regular revision cycle as updated data on population and personal and corporate income taxes are applied to the calculation of the CST. At the time of writing of this publication, CST estimates are based on: final computations for 2004–2005 and 2005–2006; a seventh interim estimate for 2006–2007; a final computation for 2007–2008; a second interim estimate for 2008–2009; and a first interim estimate for 2009–2010.

### RECENT CHANGE TO THE CST FORMULA

Prior to 2007–2008, the formula for calculating the per capita value of each component of the CST – the cash transfer, the tax point transfer and associated equalization – ensured that the sum of these amounts, i.e., the total CST entitlement per capita, was equal across all provinces. Under that formula, the cash transfer component served as an offsetting measure ensuring that this goal was achieved.

To illustrate, Figure 2 presents the total CST entitlement per capita and per province in 2004–2005. As can be seen, the total CST entitlement per capita amounted to \$474 across all provinces.

**Figure 2 – Total CST Entitlement per Capita and per Province Under the Previous Formula, 2004–2005**

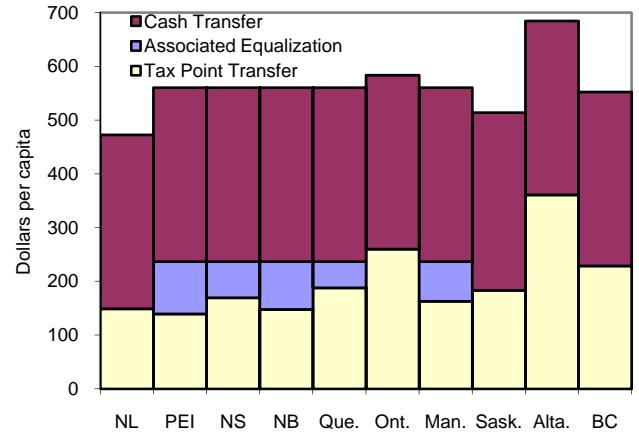


Source: See Figure 1.

Starting in 2007–2008, however, a new formula has been used to calculate the value of the cash transfer. Instead of using the cash transfer component as an offsetting measure to ensure that the total CST entitlement is distributed on an equal per capita basis across all provinces, the CST now distributes the cash transfer on an equal per capita basis across all provinces in order to ensure that direct transfers to provinces, other than Equalization, provide equal support for all Canadians (as stated in *Advantage Canada* and implemented through Budget 2007).<sup>(3)</sup>

The results of this change are shown in Figure 3, which presents the total CST entitlement per capita and per province in 2009–2010. As can be seen, the total CST entitlement per capita ranges between \$473 and \$685 across provinces due to the varying strengths of the tax point transfer and eligibility for Equalization.

**Figure 3 – Total CST Entitlement per Capita and per Province Under the Current Formula, 2009–2010**



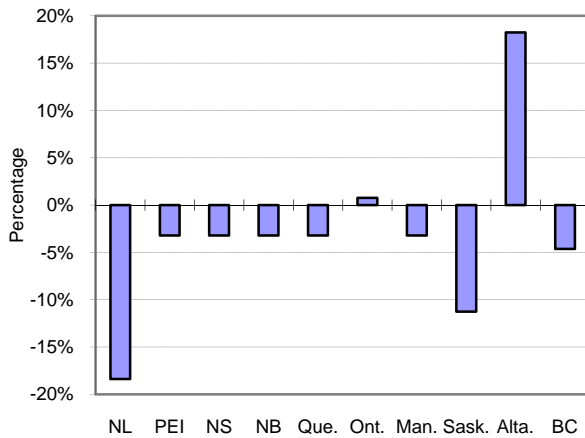
Source: See Figure 1.

### IMPACT OF THE CHANGE TO THE CST FORMULA

As explained above, the cash transfer is now the only component of the CST to be distributed on an equal per capita basis across the provinces. The current formula benefits provinces that had previously received a lower cash transfer per capita compared to other provinces. As a transition measure, however, the federal government has provided in Budget 2007 separate payments to provinces that experience declines in their CST cash.<sup>(4)</sup> These protection payments, provided outside of the CST cash envelope, help ensure that no province receives less than the amount it would have received for 2007–2008 prior to Budget 2007 changes. As these protection payments are fixed at 2007–2008 levels, full compensation does not occur in later years as the CST cash envelope increases.

Figure 4 provides a hypothetical illustration of the percentage difference in the total CST entitlement to provinces between the previous and current formulas, using 2009–2010 data. (Note: for full comparability, transition protection payments are included within the CST for 2009–2010 in both figures 3 and 4.) As can be seen, Alberta and Ontario benefit from an equal per capita distribution of CST cash. Other provinces, especially those with relatively weak tax points that are not eligible for Equalization (i.e., Newfoundland and Labrador, Saskatchewan and British Columbia), receive a proportionately lower share of the total CST entitlement.

**Figure 4 – Percentage Difference in Total CST Entitlement Between Previous and Current Formulas, 2009–2010**



Source: See Figure 1.

- (1) *Federal-Provincial Fiscal Arrangements Act*, R.S.C., 1985, c. F-8, <http://laws.justice.gc.ca/en/F-8/index.html>.
- (2) These changes were part of the Established Programs Financing Agreements for health care and post-secondary education that were negotiated between the Government of Canada and the provinces. Because the tax points transferred in 1977 represent a means of raising provincial own-source revenue, they are included in the calculation of Equalization payments. The value of the tax point transfer to a province is therefore equal to the direct revenues it generates, plus associated equalization that is calculated and paid to qualifying provinces through the Equalization program. For background information on Equalization, see Michael Holden, *Canada's New Equalization Formula*, PRB 08-20E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 10 November 2008.
- (3) This principle is linked with views expressed in the report of the Expert Panel on Equalization and Territorial Formula Financing – i.e., that Equalization should be the primary vehicle for equalizing fiscal capacity among provinces; see Expert Panel on Equalization and Territorial Formula Financing, *Achieving a National Purpose: Putting Equalization Back on Track*, May 2006, p. 47; see also Department of Finance Canada, *Advantage Canada: Building a Strong Economy for Canadians*, 23 November 2006, p. 38; and Department of Finance Canada, *Budget 2007*, 19 March 2007, ch. 4.
- (4) See Department of Finance Canada, *Budget 2007*, 19 March 2007, ch. 4, Table 4.5 (p. 136) and Annex 4, Table A4.4 (p. 363).