



BACKGROUND PAPER

DISTRIBUTION OF FEDERAL REVENUES AND EXPENDITURES BY PROVINCE

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Distribution of Federal Revenues and Expenditures by Province
(Background Paper)

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EXECUTIVE SUMMARY

The federal government collects revenues and makes expenditures in all provinces. Per capita federal revenues and spending vary from province to province, depending on the economic and demographic conditions in each province. Sources of federal revenues include personal and corporate income tax, the Goods and Services Tax and social insurance contributions. Federal spending encompasses transfers to persons (through the Canada Pension Plan and Employment Insurance, for example), transfers to provinces (through such programs as Equalization and the Canada Health Transfer), as well as federal spending on goods and services to support government operations.

This Background Paper examines the distribution of federal revenues and expenditures from 2011 to 2018 by province. It concludes that net federal expenditures have a clear redistributive effect by transferring resources from more affluent to less affluent Canadians, regardless of province of residence.

DISTRIBUTION OF FEDERAL REVENUES AND EXPENDITURES BY PROVINCE*

1 INTRODUCTION

The federal government collects revenues from various sources, including income taxes and taxes applied on goods and services in all Canadian provinces. It also spends in each province, including on programs that are widely available to all Canadians, regardless of their province of residence.

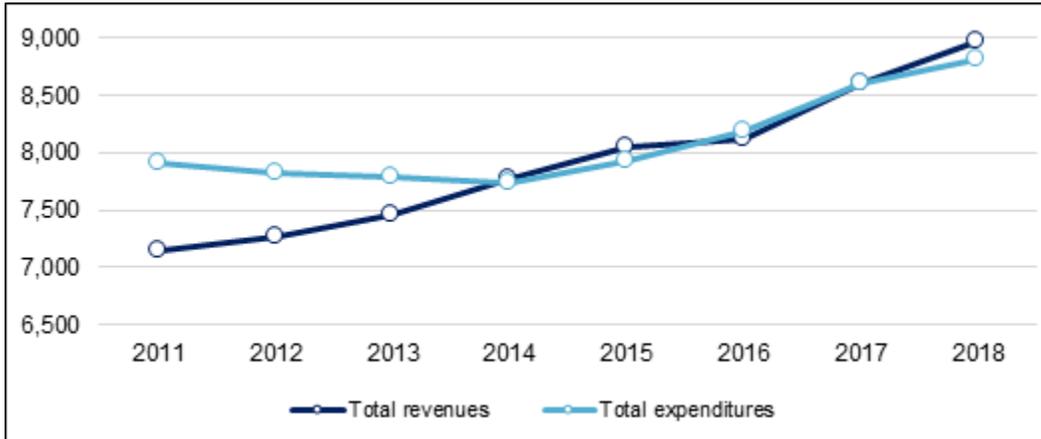
When the federal government collects more revenues than it spends in a province, the province is considered a net contributor. Conversely, if the federal government spends more than it collects, the province is considered a net recipient. A province's relative economic prosperity is an important factor in determining whether the province is a net contributor or net recipient.

This Background Paper provides an overview of the distribution of federal revenues and expenditures in Canada's provinces. Public sector statistics used in this paper are based on Statistics Canada's General Governments, Provincial and Territorial Economic Accounts. These statistics are compiled from the general ledger accounting records of governments and are standardized. They are reconcilable to government public accounts data but differ for several reasons, including the use of calendar year instead of fiscal year.

2 OVERVIEW OF FEDERAL REVENUES AND EXPENDITURES

In 2018, federal government per capita revenues were \$8,972 and per capita expenditures were \$8,809 (see Figure 1). Per capita revenues and expenditures have trended upwards and tracked relatively closely since 2014. If the federal government spends more revenues than it receives, then per capita expenditures are higher than per capita revenues, as was the case from 2011 to 2013, and again from 2016 to 2017. Conversely, if the federal government receives more revenues than it spends, then per capita revenues are higher than per capita expenditures, as was the case in 2014, 2015 and 2018.

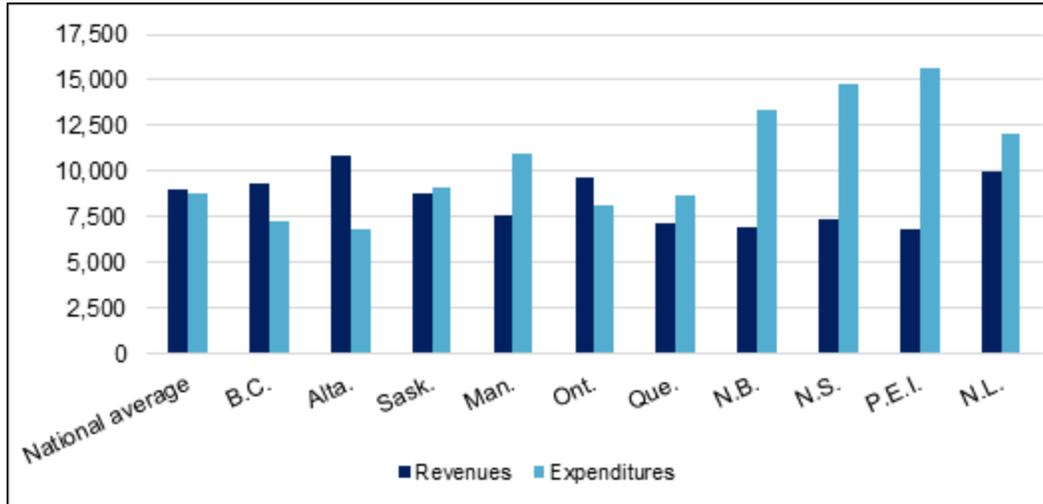
Figure 1 – Federal Revenues and Expenditures, 2011–2018 (\$ per capita)



Sources: Figure prepared by the author using data obtained from Statistics Canada, "[Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts \(x 1,000,000\)](#)," Database, accessed 6 October 2020; and Statistics Canada, "[Table 17-10-0005-01: Population estimates on July 1st, by age and sex](#)," Database, accessed 6 October 2020.

Figure 2 provides an overview of per capita federal revenues and expenditures in each province in 2018. In that year, federal per capita revenues exceeded expenditures in three provinces: British Columbia, Alberta and Ontario. Alberta was the biggest net contributor to federal revenues in 2018 on a per capita basis, due to strong economic growth that year, which increased the amount of revenue collected by the federal government to more than one and a half times the level of federal expenditures in the province. In contrast, federal per capita expenditures were highest in the Atlantic provinces, with Prince Edward Island accounting for the highest per capita expenditures. That province also recorded the lowest per capita federal revenues.

Figure 2 – Federal Revenues and Expenditures by Province, 2018 (\$ per capita)



Sources: Figure prepared by the author using data obtained from Statistics Canada, “[Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts \(x 1,000,000\)](#),” Database, accessed 6 October 2020; and Statistics Canada, “[Table 17-10-0005-01: Population estimates on July 1st, by age and sex](#),” Database, accessed 6 October 2020.

3 FEDERAL GOVERNMENT REVENUES

3.1 OVERVIEW

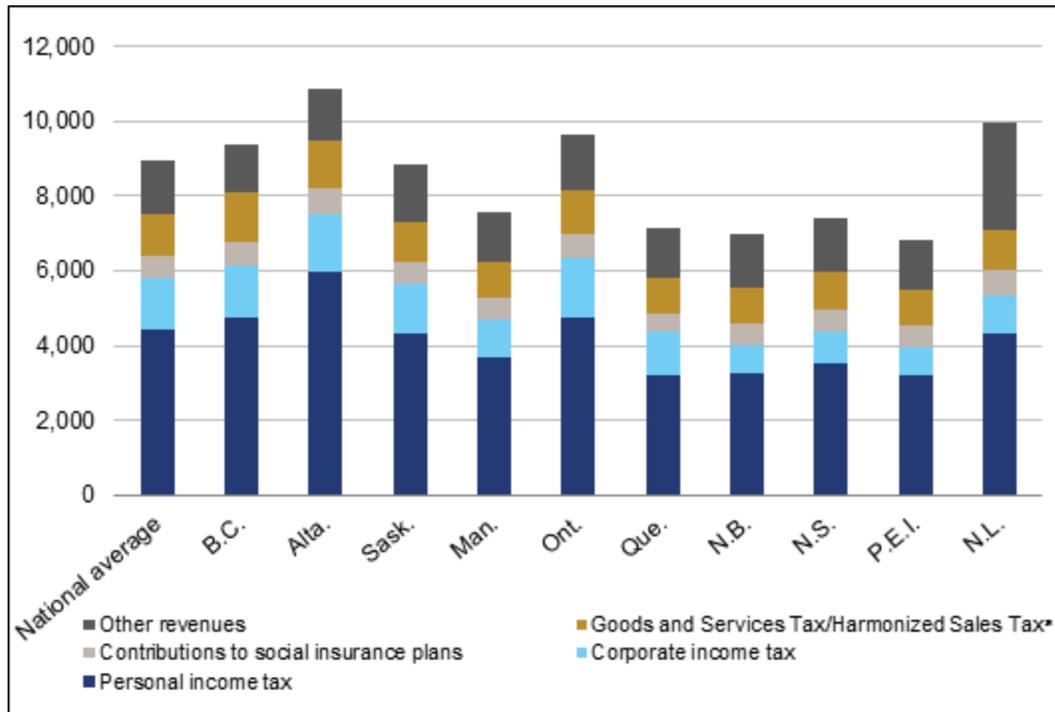
The federal government has several revenue streams, including personal income tax, the Goods and Services Tax, corporate income tax and employee contributions to social insurance plans (payroll taxes), such as Employment Insurance and the Canada Pension Plan.

3.2 FEDERAL REVENUES BY PROVINCE AND BY SOURCE OF REVENUE

Figure 3 shows federal revenues collected in 2018 by province and by source of revenue. In 2018, federal revenues per capita were higher than the national average in four provinces: British Columbia, Alberta, Ontario, and Newfoundland and Labrador.

Generally, the federal government collects more personal income tax revenues in provinces that have higher income levels because income tax rates are progressive.¹ Since federal tax rates do not vary by province, the federal government normally collects more revenues in provinces where economic conditions are more favourable. The same holds true for most of its revenue sources.

**Figure 3 – Federal Revenues by Province and by Source of Revenue, 2018
(\$ per capita)**



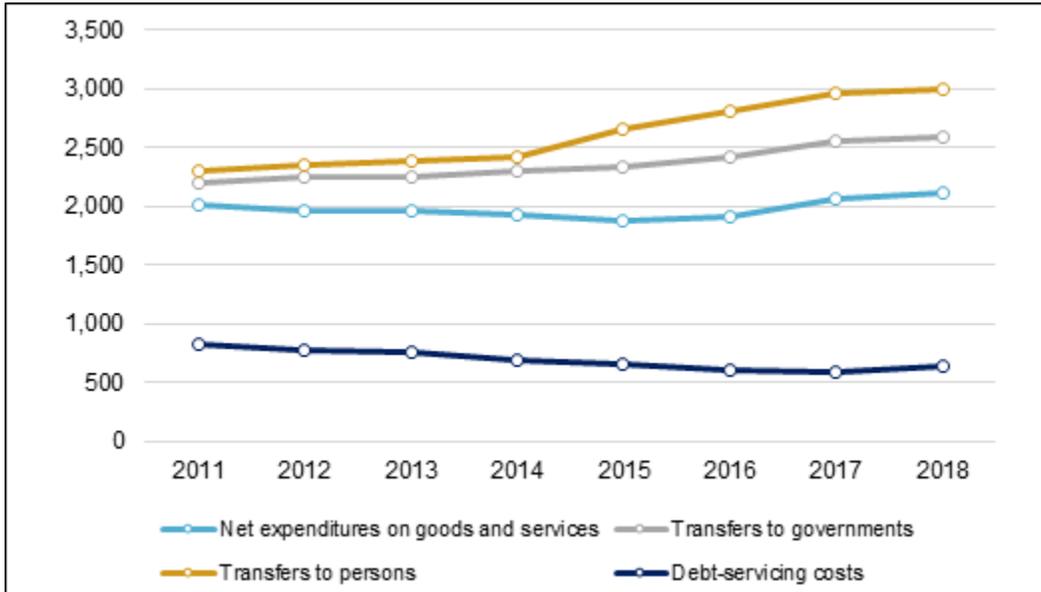
Note: a. The Harmonized Sales Tax is a consumption tax used in five Canadian provinces. It combines the federal Goods and Services Tax and the provincial sales tax into a single value-added sales tax.

Sources: Figure prepared by the author using data obtained from Statistics Canada, "Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts (x 1,000,000)," Database, accessed 6 October 2020; and Statistics Canada, "Table 17-10-0005-01: Population estimates on July 1st by age and sex," Database, accessed 6 October 2020.

4 FEDERAL GOVERNMENT EXPENDITURES

Federal government expenditures can be separated into three broad categories: program spending, debt servicing costs and other expenditures. Program spending, in turn, consists of three main types of expenditures: net expenditures on goods and services, transfers to persons and transfers to the provinces. Figure 4 illustrates federal program spending per capita for each type of expenditure plus the cost of servicing the federal government’s debt.

Figure 4 – Federal Expenditures by Type, 2011–2018 (\$ per capita)



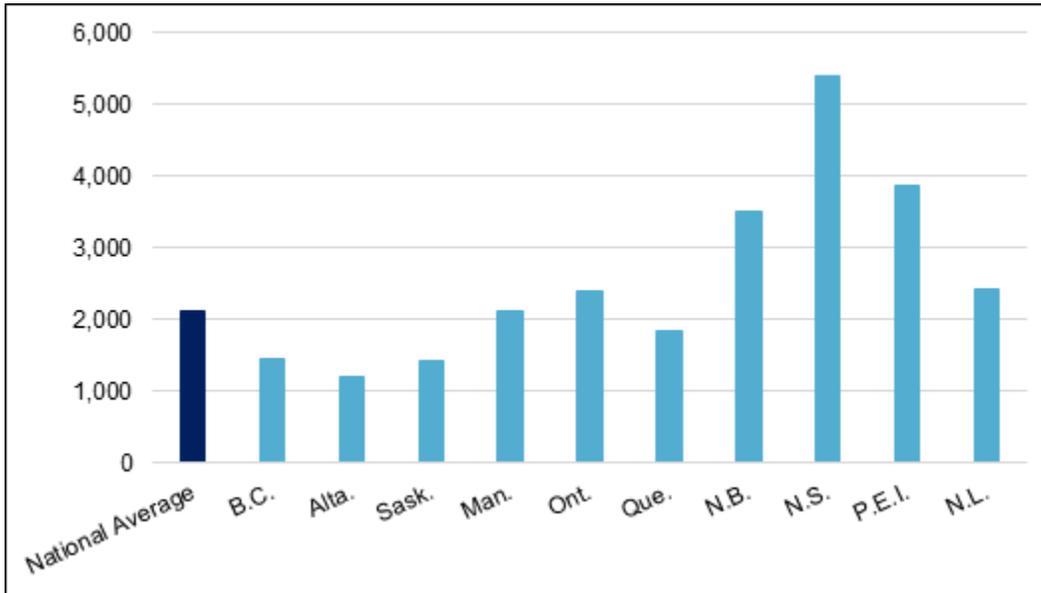
Sources: Figure prepared by the author using data obtained from Statistics Canada, “[Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts \(x 1,000,000\)](#),” Database, accessed 6 October 2020; and “Statistics Canada, [Table 17-10-0005-01: Population estimates on July 1st, by age and sex](#),” Database, accessed 6 October 2020.

4.1 FEDERAL PROGRAM EXPENDITURES BY PROVINCE

4.1.1 Net Expenditures on Goods and Services

The first type of program expenditures covers basic government activities – the salaries of public sector employees, the day-to-day operations of government departments, and military installations and operations. It also includes the purchase of supplies and materials (see Figure 5).

Figure 5 – Net Federal Expenditures on Goods and Services by Province, 2018 (\$ per capita)



Sources: Figure prepared by the author using data obtained from Statistics Canada, “[Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts \(x 1,000,000\)](#),” Database, accessed 6 October 2020; and Statistics Canada, “[Table 17-10-0005-01: Population estimates on July 1st, by age and sex](#),” Database, accessed 6 October 2020.

On a per capita basis, net federal government spending on goods and services is highest in the Atlantic provinces, particularly in Nova Scotia. Conversely, per capita federal spending on goods and services in British Columbia, Alberta, Saskatchewan and Quebec was markedly lower than in the rest of the country in 2018.

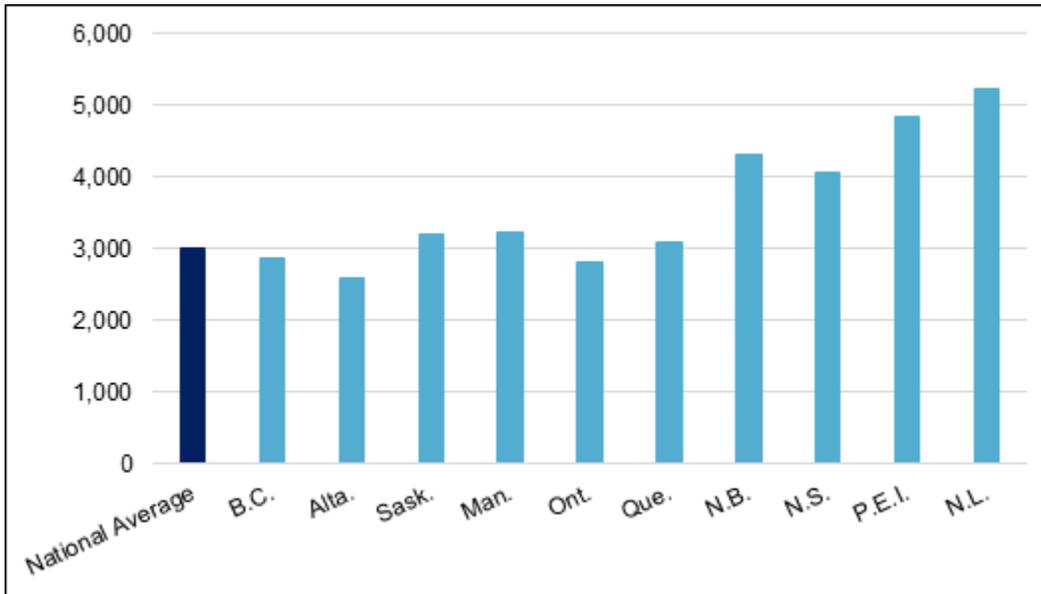
Per capita spending is a function of population and spending levels. Since the federal government strives to have an active presence throughout the country, lower population areas are likely to show higher per capita federal spending on goods and services. Certain locations have a natural propensity for federal government activity, for example, the National Capital Region. This may also be the case for Halifax since its large, natural, ice-free harbour is where the Atlantic naval base is located.

4.1.2 Federal Transfers to Persons

The second type of program expenditures, federal transfers to persons, comprises payments under federal programs such as Employment Insurance, the Canada Pension Plan and Old Age Security (see Figure 6).

The amounts paid are closely tied to the socio-economic conditions in the various provinces. As a result, provinces with relatively low income levels and relatively high unemployment rates tend to receive a larger per capita share of federal transfers to persons. A similar effect can be seen in provinces with larger populations of senior citizens or children.

Figure 6 – Federal Transfers to Persons by Province, 2018 (\$ per capita)



Sources: Figure prepared by the author using data obtained from Statistics Canada, “[Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts \(x 1,000,000\)](#),” Database, accessed 6 October 2020; and Statistics Canada, “[Table 17-10-0005-01: Population estimates on July 1st, by age and sex](#),” Database, accessed 6 October 2020.

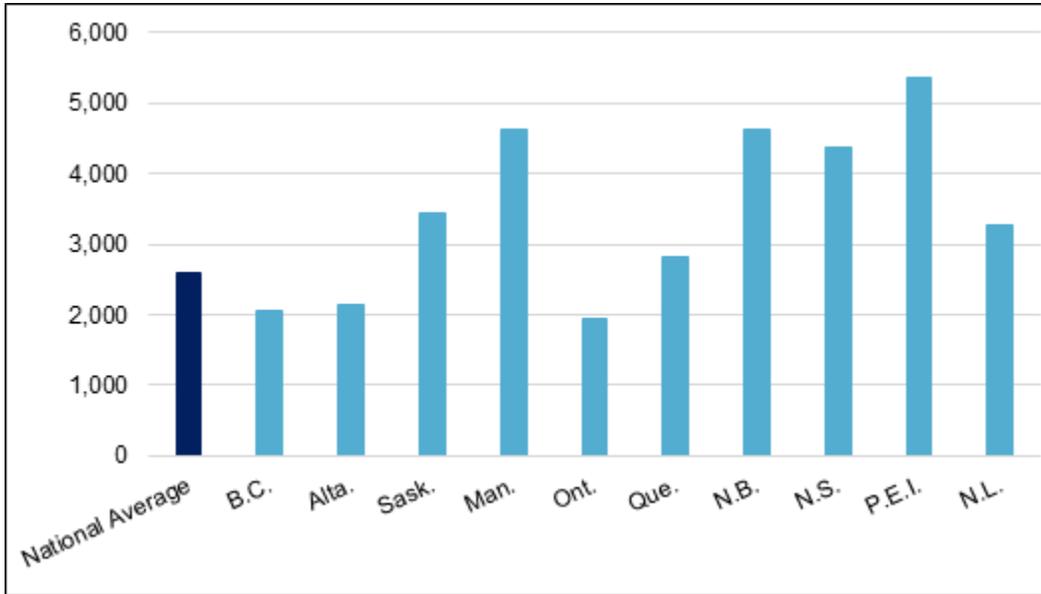
For the most part, the eligibility criteria for a federal transfer do not vary based on provincial residency; they apply to individuals and families uniformly across Canada. The one exception is Employment Insurance, whose eligibility requirements take regional considerations into account. British Columbia, Alberta and Ontario had transfers to persons that were below the national average of \$2,994 in 2018; in contrast, Newfoundland and Labrador had the highest amount per capita.

4.1.3 Federal Transfers to Provinces

The third type of program expenditures consists of transfers to provinces, including Equalization, the Canada Health Transfer and the Canada Social Transfer. The Equalization program is designed to address fiscal disparities among provinces. It aims to provide less prosperous provinces the means to provide public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation.² Payments to the provinces under the Canada Health Transfer and the Canada Social Transfer are made on an equal per capita cash basis.

Federal transfers to provinces vary widely from one province to the next (Figure 7), primarily because only certain provinces qualify for Equalization payments (in 2018, six provinces received such payments).³ On a per capita basis, Prince Edward Island obtained the most in federal transfers in 2018, mainly because of the amount of Equalization it received,⁴ whereas British Columbia, Alberta and Ontario obtained the least.

Figure 7 – Federal Transfers to Provinces, 2018 (\$ per capita)



Sources: Figure prepared by the author using data obtained from Statistics Canada, “[Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts \(x 1,000,000\)](#),” Database, accessed 6 October 2020; and Statistics Canada, “[Table 17-10-0005-01: Population estimates on July 1st, by age and sex](#),” Database, accessed 6 October 2020.

4.2 FEDERAL INTEREST PAYMENTS ON THE NATIONAL DEBT

Debt servicing costs (i.e., federal interest payments on the national debt) make up the second major category of federal expenditures. The national debt and the interest payments on that debt are distributed equally across the country.⁵ Hence, the per capita cost of servicing the national public debt (\$639 in 2018) is identical in each province.

4.3 OTHER EXPENDITURES

The final category of expenditures, “Other,” accounts for less than 5% of total federal government expenditures. These expenditures include business subsidies, transfers to non-residents and certain payments to local governments.⁶

5 CONCLUSION

There is a clear redistributive effect to net federal expenditures in Canada: the federal government receives more tax revenues in certain provinces and spends more in others. For the most part, differences in net federal expenditures among provinces reflect federal programs and policies aimed at redistributing income from more affluent to less affluent individuals, regardless of province of residence.

NOTES

- * Data on Canadian territories are excluded from this publication for reasons of scale.
- 1. For more detailed information, see Statistics Canada, "[Table 11-10-0190-01: Market income, government transfers, total income, income tax and after-tax income by economic family type](#)," Database, accessed 6 October 2020.
- 2. Government of Canada, [Equalization Program](#).
- 3. Government of Canada, [Federal transfers to provinces and territories](#).
- 4. Government of Canada, "[Federal Support to Prince Edward Island](#)," *Major federal transfers*.
- 5. For additional information, see Government of Canada, [Annual Financial Report of the Government of Canada Fiscal Year 2018–2019](#).
- 6. Statistics Canada, "[Table 36-10-0450-01: Revenue, expenditure and budgetary balance – General governments, provincial and territorial economic accounts \(x 1,000,000\)](#)," Database, accessed 6 October 2020.