



Equalization Program

What is Equalization?

- Equalization is the Government of Canada's transfer program for addressing fiscal disparities among provinces. 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.
- The purpose of the program was entrenched in the Canadian Constitution in 1982:
"Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." (Subsection 36(2) of the Constitution Act, 1982)
- Equalization payments are unconditional – receiving provinces are free to spend the funds according to their own priorities.
- The Government of Canada has ensured that Equalization continues to grow in line with the economy.

How Equalization Works

- Equalization entitlements are determined by measuring provinces' ability to raise revenues – known as "fiscal capacity".
- Before any adjustments, a province's per capita Equalization entitlement is equal to the amount by which its fiscal capacity is below the average fiscal capacity of all provinces – known as the "10 province standard".
- Provinces get the greater of the amount they would receive by fully excluding natural resource revenues, or by excluding 50 per cent of natural resource revenues.
- Equalization is adjusted to ensure fairness among provinces while continuing to provide a net fiscal benefit to receiving provinces from their resources equivalent to half of their per capita resource revenues.
- Equalization is also adjusted to keep the total program payout growing in line with the economy. The growth path is based on a three-year moving average of gross domestic product (GDP) growth. This helps to ensure stability and predictability while still being responsive to economic growth.
- The program also maintains the benefits of the Atlantic Accords for Nova Scotia

and Newfoundland and Labrador. In 2007, the two provinces were given the choice to continue to operate under the previous Equalization system or to permanently opt into the new program at any point prior to the expiry of the offshore accords. Having chosen the new program, Nova Scotia benefits from a guarantee that it will do at least as well, on a cumulative basis, as it would have under the formula agreed to at the time the Accord was signed. Newfoundland and Labrador no longer qualifies for Equalization.

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