



Territorial Formula Financing

Territorial Formula Financing (TFF) is the largest federal transfer to the three territorial governments.

What is Territorial Formula Financing?

- Territorial Formula Financing is an annual unconditional transfer from the Government of Canada to the three territorial governments to enable them to provide their residents a range of public services comparable to those offered by provincial governments, at comparable levels of taxation.
- TFF helps territorial governments fund essential public services in the North, such as hospitals, schools, infrastructure and social services, and recognizes the high cost of providing public services in the North as well as the challenges the territorial governments face in providing these services to a large number of small, isolated communities.

How TFF works

- TFF is comprised of three separate gap filling formulas to recognize the unique circumstances of each of the territories. Each territory's grant is based on the difference between a proxy of its expenditure needs (the Gross Expenditure Base, or GEB) and its capacity to generate revenues (eligible revenues).
- Each territory's GEB is adjusted annually to ensure that territorial spending can grow in line with changes in relative population growth between the territories and Canada and changes in provincial-local government spending.
- Territorial eligible revenues include two components. Seven of the largest own-source revenues for the territories (personal income, business income, tobacco, gasoline, diesel fuel, alcoholic beverages and payroll) are measured using a Representative Tax System, similar to that used by the Equalization program. The remaining eleven own-source revenue sources (capital tax, general and miscellaneous sales taxes, commercial and non-commercial vehicle licences, hospital and medical insurance premiums, insurance premiums, property tax, lottery and other games of chance revenues, miscellaneous revenues and preferred share dividends) are estimated in a revenue block with an annual escalator of 2 per cent.
- TFF includes incentives for the territories to increase their own revenues and develop their economies by excluding 30 per cent of territories' measured revenue capacity from the calculation.
- A single estimate and payment system ensures the predictability and stability of TFF grants.

- Natural resource revenues are not part of territorial eligible revenues for the purposes of TFF calculations. The treatment of natural resource revenues is negotiated separately with each territory as part of overall negotiations on the devolution of the federal responsibility for the administration and control of onshore natural resources to the territorial governments. The Yukon Government has completed devolution and resource revenue sharing agreements. The negotiations with the Government of the Northwest Territories are ongoing and the Government of Nunavut has commenced the devolution process.

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