

## Classification of government revenue and expenditures

### Revenue

#### Own source revenue

##### Income taxes

- (a) **Personal income tax** - Encompasses general levies on income of individuals and unincorporated businesses as well as special levies on income, such as surtax, which governments charge from time to time. The proceeds from the income tax on capital gains of individuals and unincorporated businesses are included here. Also, refundable tax credits are in this category, and they are grossed up as revenue and expenditures.
- (b) **Corporation income tax** - Includes most federal and provincial taxes on taxable profits of corporations. It also includes special taxes which are occasionally levied on profits of corporations and refundable tax credits which are grossed up as revenue and expenditures.
- (c) **Mining and logging taxes** - Accounts for specific taxes which are sometimes levied on profits of natural resource based industry. Also included are refundable tax credits that are grossed up as revenue and expenditures. These taxes were previously classified to natural resource revenue.
- (d) **Taxes on payments to non-residents** - Includes the federal tax withheld at source on payments to non-residents (both individuals and corporations) of dividends, interest, rents, royalties, alimony, managerial fees and amounts arising from trusts and estates as well as withholdings on foreign insurance companies.
- (e) **Other income taxes** - Includes income taxes which cannot be allocated to any of the other categories.

##### Consumption taxes

- (a) **General sales tax** - The proceeds of the federal Goods and Services Tax (GST) and of provincial retail sales taxes are recorded in this classification. In April 1996, the federal government reached an agreement with three provinces to harmonize their provincial retail sales taxes with the federal GST (Newfoundland, New Brunswick and Nova Scotia). The federal remittances for this new Harmonized Sales Taxes (HST) to these provinces are classified under this category.

- (b) **Alcoholic beverages tax** - Includes liquor gallonage tax and all forms of special levies, excise tax, excise duty or other, imposed on the production and sale of alcoholic beverages.
- (c) **Tobacco tax** - Encompasses special levies such as excise tax, excise duty and provincial specific taxes on the production and sale of tobacco products. General sales taxes and customs duties applicable to tobacco products are included under their respective headings.
- (d) **Amusement tax** - Includes tax receipts from admissions to theaters, cinemas, recreational, cultural or other entertainment activities. Taxes levied by provincial governments on pari-mutual betting at horse race tracks and on casinos. gaming activities are also included here.
- (e) **Gasoline and motive fuel taxes** - Includes the proceeds of specific taxes on gasoline, on aviation and diesel fuel and on propane or other substances when used as motive fuel.
- (f) **Customs duties** - Apply only to the federal level and take into account the proceeds from levies on commodities imported into Canada e.g., manufactured goods and food, beverages and tobacco.
- (g) **Remitted liquor profits** - Accounts for total remitted profits of government owned liquor boards. Because government owned liquor boards operate as fiscal monopolies their profits are treated as taxes on products (indirect taxes).
- (h) **Remitted gaming profits** - Accounts for total remitted profits of government owned lottery and other gaming corporations. Because government owned lottery and other gaming corporations operate as fiscal monopolies, their profits are considered as taxes on products (indirect taxes).
- (i) **Other consumption taxes** - Includes air transportation tax, taxes on meals and hotels and miscellaneous consumption taxes.

### Property and related taxes

- (a) **General property taxes** - In Canada, taxation of real property (land and improvements) is shared by provincial and local governments. In the statistical data on provincial governments, the amount shown as revenue from real property taxation is exclusive of amounts collected for and passed on to local governments which include the amount collected for and remitted to them with the amount they collected themselves. Property owned and occupied by most general governments is exempt from property tax. To compensate for the loss of revenue due to the exemption,

- grant in lieu of taxes are paid by the federal and provincial governments to provincial and local governments raising property taxes. Includes lot levies (the additional lump sum development charges levied on properties benefiting from local improvements or additional capital facilities), special assessments (levies made by a municipality on a specific group of properties to pay for a service such as the provision of a sidewalk, supplied to those properties only) and grants in lieu of taxes.
- (b) **Capital taxes** - Includes the taxes levied by federal and provincial governments on the paid-up capital of corporations.
  - (c) **Other property-related taxes** - Includes land transfer taxes, business taxes and wealth transfer taxes.

### Other taxes

- (a) **Payroll taxes** - Encompasses tax revenues levied as a percentage of wages and salaries. In some provinces, the proceeds from these taxes are used to help finance a number of functions while in others they are specifically assigned to health and/or education or to worker training. As of 1998, four provinces were levying a payroll tax. - Newfoundland and Labrador, Quebec, Ontario and Manitoba. Employer contributions to CPP, QPP, EI, etc., which to an extent are also based on salaries and wages paid by the employer are brought under the category . Contributions to Social Insurance Plans.
- (b) **Motor vehicle licences** - Accounts for the proceeds of registration fees, drivers, licences, permits and other fees relating to the ownership and operation of motor vehicles.
- (c) **Natural resource taxes and licences** - Accounts for the proceeds of taxes levied on private properties or production of natural resources. Freehold mineral right tax is classified under this category. Also includes licence fees paid to be able to conduct activities related to natural resources but except activities connected to exploration of natural resources.
- (d) **Miscellaneous taxes** - Includes agricultural insurance premiums, insurance premium taxes, hunting and fishing licences, liquor licences and other licences and permits, business fines and penalties and business donations.

### Health and drug insurance premiums

Includes premiums levied by some provinces and used specifically to finance their hospitalization, medical care and drug insurance programs.

## **Contributions to social insurance plans**

These contributions are broken down into five types of plans: Employment Insurance (EI) contributions, contributions to workers, compensation boards, contributions to non-autonomous pension plans, contributions to Canada and Quebec Pension Plans and other social insurance plan contributions.

## **Sales of goods and services**

As providers of public goods and services, institutions within the government component of the public sector engages in transactions of commercial nature with organizations or individuals in the private sector and with other institutions within the government component. The revenue generated from such transactions are called “Sales of Goods and Services”, which could be defined as receipts of fees and charges paid in proportion to the cost or distribution of the government goods and services provided to the payer.

## **Investment Income**

This category includes natural resource royalties, remitted trading profits, interest income and other investment income.

## **Other revenue from own sources**

Includes other fines and penalties, capital transfers from own sources, other donation and miscellaneous revenue from own sources.

## **Transfers**

### **General purpose transfers from other government sub-sectors**

General purpose transfers are broken down by level of government from which the transfers originate. Transfers from the federal government are compiled as general purpose capital transfers from the federal government, statutory subsidies, shares of federal taxes on preferred share dividends and on the income of certain public utilities, tax revenue guarantees, equalization, the Canada Health and Social Transfer, reciprocal taxation and stabilization.

### **Specific purpose transfers from other government sub-sectors**

Specific purpose transfers are broken down by level of government from which the transfers originate. This group covers transfers that must be applied to particular activities such as: federal transfers to provinces for the improvement of certain highways; provincial transfers to municipalities for sewage and refuse

disposal; provincial transfers to education and health institutions to help them finance their operations.

## **Expenditures**

### **General government services**

This classification includes executive and legislative services general administration and other expenditures of a general nature.

### **Protection of persons and property**

Includes outlays for services provided to ensure the security of persons and property. Protection extends beyond safeguard from external aggression and criminal action; it includes measures to protect the individual from negligence and abuse, and activities to ensure the orderly transaction of affairs of the community. The category includes national defence, courts of law, correction and rehabilitation services, policing, firefighting and regulatory services.

### **Transportation and communications**

This category includes outlays for all phases of the acquisition, construction, operation and maintenance of the relevant transportation and communications facilities and equipment as well as expenditures pertaining to related engineering and technical surveys. This function includes the government transfers to own business enterprises engaged in the transportation activities, especially public transit and railway services. Included are air transport, road transit, public transit, rail transport, water transport, pipelines and telecommunications.

### **Health**

Includes expenditures made to ensure that necessary health services are available to all citizens. Residential care facilities and other health and social services institutions providing medical care and professional nursing supervision are considered as institutions providing health services while those providing room and board with no or limited medical care and nursing supervision are considered as institutions providing social services. Also included are expenditures of hospitals, ancillary enterprises, i.e., entities that exist to furnish goods and services to patients, staff and others (food services, parking, etc.). Four sub-functions identify the major components of this classification.

- (a) **Hospital care** - Covers outlays in respect of all kinds of hospital services, i.e., those provided by general hospitals, public health clinics, as well as by acute disease, chronic disease, convalescent, isolation and mental hospitals. It also includes expenditures pertaining to nursing schools attached to hospitals. Where nursing schools come under the

- responsibility of the Department of Education, the related expenditures are allocated to the sub-function "Education - post-secondary". Expenditures of all hospitals (private, public, religious, etc.) are included except for national defence and veterans hospitals whose costs are allocated to the "National Defence" and "Veterans Benefits" sub-functions respectively.
- (b) **Medical care** - Comprises outlays in respect of general medical care and drug programs as well as outlays incurred for dental and visiting-nurse services and on out-patient care services. It also includes outlays for medical care provided by hospitals, public residential care facilities, workers' compensation boards and other public health and social services institutions. Transfers to private residential care facilities and other health and social services institutions to help them finance their medical care activities are included here.
  - (c) **Preventive care** - Consists of a wide variety of outlays which are intended to prevent the occurrence of diseases and to mitigate their effect. It covers public health clinics; communicable disease control services (including immunization, treatment, isolation and quarantine outside hospital premises); food and drug inspection services; hospitals which offer preventive services to patients; government establishments (not located in hospitals, e.g., residential care facilities and other health and social services institutions) providing nursing, hygiene and nutrition advisory services, and government organizations conducting research on the causes and consequences of particular diseases or addictions (i.e., cancer treatment foundations). Also included are transfers to private facilities providing preventive care, i.e., private residential care facilities.
  - (d) **Other health services** - Includes outlays on clinics for the treatment of retarded or emotionally disturbed persons and on laboratory and diagnostic services, grants to health-oriented organizations, and expenditures on other health-related services such as health department administration, health statistics, staff training and other services of health establishments (e.g., hospitals and other health and social services institutions), ambulance services, medical rehabilitation and indemnities to injured persons and their dependants which cannot be allocated to the other sub-functions. Also included are outlays on protection of health and health inspection, and expenditures of ancillary enterprises of health and social services institutions.

## **Social services**

Covers actions taken by government, either alone or in co-operation with the citizenry, to offset or to forestall situations where the well-being of individuals or families is threatened by circumstances beyond their control. It goes beyond the concept of "welfare" which covers assistance (transfers) and services to

individuals who are so disadvantaged that the universal social security services are inadequate to provide for their well-being or who fail to qualify for support from those services. The function comprises the following six sub-functions:

- (a) **Social assistance** - Consists of transfer payments (including refundable tax credits) to help individuals and families maintain a socially acceptable level of earnings. Although the workers' compensation benefits, pension plan benefits, veteran's benefits and motor vehicle accident compensations, are considered a form of income assistance, they are reported in separate sub-functions. This sub-function comprises the following programs: the general welfare payments to disadvantaged individuals, the refundable tax credits and rebates for low-and-middle income individuals or families (which are used more and more as instruments of social policy to offset taxation of the elderly and disadvantaged i.e., property and sales tax credits), outlays relating to contributory plans such as the Canada Pension Plan and the Quebec Pension Plan, and non-contributory plans, such as old age security (including the guaranteed income supplement), family allowance payments and child tax benefits made under federal and provincial governments programs, the employment insurance benefits, the rent supplement, the spouse's allowances and the blind and disabled persons allowances. The administration costs related to those programs are also included.
- (b) **Workers. compensation benefits** - Includes expenditures on administration and for benefits, other than rehabilitation and medical care, related to workers' compensation schemes.
- (c) **Pension plan benefits and other expenditures.** Accounts for the following transactions: **(i)** Pensions and other benefits paid under pension schemes that are embedded in the government's budgetary framework (pay as you go plans) such as the Public Service Superannuation Plan of Saskatchewan and **(ii)** Pension and other benefits paid under the nonautonomous pension schemes, i.e. plans that have full separate accounts within the Consolidated Revenue Fund but are not separate institutional units such as the federal Public Service Superannuation Account and the annual surpluses (contributions of employees and Employers plus interest earnings less pensions and benefits paid), of the non-autonomous pension plans which are considered household's claims on government.
- (d) **Veterans benefits** - As well as administrative costs, pensions, allowances and grants, it includes outlays pertaining to the administration of veterans hospitals, to the provision of medical supplies and prosthetic appliances, to the provision of medical, educational and social welfare services and to the forgiveness of loans under the Veterans' Land Act.

- (e) **Motor vehicle accident compensations** - Includes compensations paid to victims of bodily injuries provided for by government automobile insurance plans.
- (f) **Other social services** - Accounts for expenses related to the provision of services to old age, to persons who are unable to lead a normal life due to a physical or mental impairment, to persons temporarily unable to work due to sickness, to households with dependent children, to persons who are survivors of a deceased person (spouse, children, etc.) and to other needy persons. It also includes direct expenditures of public institutions (hospitals, residential care facilities, other health and social services institutions) providing social services and transfers to private organizations (e.g., residential care facilities) providing similar services.

## Education

Includes the costs of developing, improving and operating educational systems and the provision of specific education services. Also included are expenditures of universities, ancillary enterprises, i.e., entities providing goods and services to students, staff and others (bookstores, food services, residences, parking). It is subdivided into the following four sub-functions:

- (a) **Elementary and secondary education** - Encompasses outlays for educational services from kindergarten to senior matriculation. It also includes expenditure for technical and vocational training which is provided separately at the secondary school level as well as expenditure for general administration and maintenance of standards, contributions of governments, as employers, to teachers pension plans, support to students, the construction of buildings and the operation of education programs. Also included are expenses for pupil transportation, and for text books, electronics, equipment and supplies used in the education process. Schools for the handicapped, schools for Indians and Inuit and transfers to private elementary and secondary schools come under this sub-function.
- (b) **Post-secondary education** - Refers to the kind of education generally obtained in universities or in degree and non-degree granting community colleges and specialized educational institutions. Included in these colleges and institutions are teachers, colleges, advanced technical institutes and junior colleges, CEGEPS, music conservatories and schools specializing in the instruction and training of artists, and nursing education provided by universities and colleges. This category includes the transfers or direct expenditures for the operations of universities, colleges and institutions providing this kind of education. Also included are bursaries, scholarships and other types of financial assistance to students (loan forgiveness, interest relief, etc.) as well as refundable learning tax credits.

- (c) **Special retraining services** - Comprises outlays made for the purpose of upgrading the skills of individuals. It includes the cost of courses provided under the Federal Manpower Training Program and the new Labor Market Development Agreement, the purchases of on-the-job training for unemployed insurance recipients, cash allowances or subsidies to workers and persons available for work undergoing training, tax credits intended to encourage systematic employee training by corporations and other similar services. Excluded is police training, which is classified as "Protection of Persons and Property".
- (d) **Other education** - Covers outlays that either overlap or cannot be allocated to the other sub-functions. It includes the general administration expenses of departments of education, the costs of statistical and research activities pertaining to education and the expenses of apprenticeship training. Payments made by one government to another or to the private sector to encourage proficiency in the official languages are also included, as are costs of special instructional arrangements such as evening classes and correspondence courses. Expenditures of ancillary enterprises of colleges and universities, e.g., bookstores and cafeterias, are included here.

### **Resource conservation and industrial development**

This classification includes a wide array of services related to the conservation and development of natural resources and the development and promotion of industries. Included are agriculture, fish and game, oil and gas, forestry, mining, water power and tourist promotion.

### **Environment**

While certain components of this function are similar to some sub-functions of "Protection of Persons and Property" and others with sub-functions of "Health", they are grouped in this function through their common aim of ensuring the most favorable environment for people and of minimizing the deleterious effects of modern living on that environment. Included are water purification and supply, sewage collection and disposal, garbage and waste collection and disposal, pollution control and other environmental services.

### **Recreation and culture**

The purpose of this function is to portray government participation in the field of leisure either through developing, improving or operating leisure facilities or through assistance payments to individuals and private organizations engaged in promoting leisure activities.

## **Labour, employment and immigration**

Included in this function are outlays related to the development and promotion of labour relations and fair employment conditions, as well as to various immigration programs.

## **Housing**

This function now includes all government outlays on housing with the exception of transfers (rent supplement) to individuals made to help alleviating their current rental cost which are allocated to the sub-function "Social Assistance".

## **Foreign affairs and international assistance**

Provides for expenditures pertaining to the formal relations of Canada with other sovereign states. It accounts for contributions made to foster economic development and to improve social conditions in foreign lands, e.g., the expenditures of the Canadian International Development Agency. (Expenditures on trade or immigration promotion abroad and cultural exchange with foreign countries are respectively classified under "Trade and Industry", "Immigration" and "Culture").

## **Regional planning and development**

Covers expenditures related to community and region development affairs and services. These include expenditures on planning and zoning and on community and regional development.

## **Research establishments**

This function provides for expenditures pertaining to organizations like the National Research Council of Canada and certain provincial research establishments whose prime purpose is pure or applied scientific research and the promotion of developments resulting from such activities. Also included are grants to individuals and non-government establishments engaged in similar types of research as well as refundable tax credits for research and development. It does not cover the expenditure of the Medical Research Council which is allocated to the function "Health".

## **General purpose transfers to other governments subsectors**

As in the case of revenue, intergovernment transfers are classified and specified by level of government sub-sectors. Included in this function are the Canada Health and Social Transfer (CHST) which has replaced the Established Programs Financing (EPF) and Canada Assistance Plan (CAP) transfers previously classified as specific purpose transfers and the Quebec's transfer to

the federal government of the proceeds of the 3.0 personal income tax points granted to Quebec under the ex Youth Allowances Program. Specific purpose transfers are not included here. Because they are made on the condition that the recipient carries out specific programs, they are included in the related expenditure functions.

### **Debt charges**

This category is subdivided into “interest” and “other debt charges”. It excludes debt retirement as well as realized and unrealized gains and losses on foreign exchange which are now classified as part of the Financing Account, and not considered as expenditures.

### **Other expenditures**

This category provides for expenditures which cannot be allocated to any of the other functions. It is occasionally used in the estimate cycles to include contingency reserves which are there mainly to handle unforeseen changes in the economy. It also includes the balancing adjustments or residual error of the consolidation exercise.