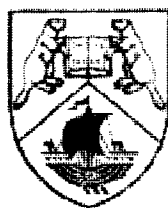


The Growth of Direct and Indirect Transfers  
to Persons in Canada: 1988-96

by  
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# THE GROWTH OF DIRECT AND INDIRECT TRANSFERS TO PERSONS IN CANADA: 1988-96

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## Abstract

*This paper analyzes the growth pattern of transfer payments to persons in Canada during the 1988-96 period. We find that indirect transfers (tax expenditures) are large in magnitude, both in dollar amount and in relation to direct transfers; that direct transfers are aimed largely at social policy objectives while indirect transfers are aimed mainly at economic policy objectives. Our analysis suggests that the government uses two different vehicles for delivering "social" and "economic" transfers to persons. For the former it uses direct cash payments and for the latter it uses the personal income tax system. This separation of delivery mechanisms may distort policy priorities. While social programs delivered through direct transfers receive annual scrutiny under government spending review, economic transfers remain largely hidden behind a complex tax code. We suggest that tax preferences be treated as transfers payments also for budgetary purposes and their rationale reviewed periodically as is that of direct transfers. This review should address the following fundamental question. Do these selected tax breaks generate sufficient economic benefits to cover the economic costs of the higher income taxes required to pay for those programs?*

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## I. INTRODUCTION

Governments collect taxes for the purpose of financing publicly-provided services and making transfer payments to persons and to businesses. Expenditures on public services are usually called exhaustive expenditures because they shift resources from the private to the public sector. Transfer payments do not involve such a shift of resources, but simply generate a reallocation of purchasing power among different individuals and families within the private sector. Transfer payments to persons are usually viewed as performing exclusively a redistributive function because some of their major components offer financial assistance to Canadians with below-average income. This view is based on the analysis of direct transfers only, i.e., direct payments from governments to individuals and families. We argue in this paper that this conventional view no longer holds when the definition of transfers to persons is expanded to include the indirect transfers delivered through the special provisions incorporated in the personal income tax (PIT) system commonly known as tax expenditures. In addition to raising the desired amount of revenue, the PIT is also used to implement various government policy objectives through the delivery of selected spending programs and special tax breaks to targeted individuals and families. These tax expenditures, which include spending programs delivered through the tax system as well as selected tax breaks, reduce the tax otherwise payable by the beneficiaries thus increasing their disposable income and spending power.

That the tax system contains a host of special provisions which reduce the amount of tax that payable by benefitting income earners, consumers and businesses is a well-known fact.<sup>1</sup> The amount of tax revenue foregone because of tax expenditures has been measured and publicly reported for

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<sup>1</sup> A discussion of various issues arising from tax expenditures is found in Bruce (1988).

more than a decade.<sup>2</sup> What is not often emphasized is that these tax expenditures share the defining characteristic of transfer payments: they do not shift resources from the private to the public sector, but simply reallocate spending power among individuals and families.

The purpose of this paper is to incorporate tax expenditures in the analysis of government transfers to persons by treating them as indirect transfers. We show that indirect transfers are large in magnitude, both in dollar amount and in relation to direct transfers, and are primarily aimed at economic policy objectives. Finally we show how governments use different vehicles for providing “social” and “economic” transfers to persons: the former are delivered directly through cash payments while the latter are delivered indirectly by means of the personal income tax system. We argue that the different delivery mechanisms for direct and indirect transfers affect the budgetary decision-making process and may distort policy priorities. While social programs delivered through direct transfers receive annual scrutiny under government spending review, economic transfers remain largely hidden behind a complex tax code. We suggest that tax expenditures be treated as transfers payments also for budgetary purposes and their rationale reviewed periodically as is that of direct transfers.

The paper is organized as follows. Section II discusses some methodological issues. Section III shows the change in various indicators of transfer payments to persons during the 1988-96 period and section IV provides some concluding comments.

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<sup>2</sup> For Canada, detailed information is provided in annual reports published by the federal Department of Finance. For a number of industrialized countries, data on tax expenditures are published occasionally by the OECD.

## II. METHODOLOGICAL ISSUES

### *A. Indirect Transfers*

The data on tax expenditures is taken from the Department of Finance's annual estimates of tax expenditures published under the title "Government of Canada tax Expenditures." In these reports tax expenditures are defined as "deviations from a benchmark tax system". In the case of the personal income tax, the benchmark tax system incorporates a comprehensive income base at existing statutory rates. Therefore, personal income tax expenditures "typically... take the form of income exclusions, deductions, credits or tax deferrals that are available to select groups or types of activity" (1992 Report). In these reports, tax expenditures are grouped into eleven categories according to their functions: culture and recreation, education, employment, family, farming and fishing, federal-provincial financial arrangements, general business and investment, health, income maintenance and retirement, small business, and other items. A separate category, named memorandum items contains a variety of tax concessions which are not considered to have the same firm standing as tax expenditures.

We made a number of adjustments to the list of tax expenditures contained in the Department of Finance's reports. First, we excluded the category on federal-provincial financing arrangements for two reasons: (a) they do not fit into an analysis of transfers to persons, and (b) they can be viewed as potential provincial taxes collected by the federal government on their behalf. Second, the child tax benefit is included both in the list of tax expenditures and in the list of direct transfers. In an analysis of total transfers to persons, this item can be included only once. In our view this item, and its predecessor the child tax credit, have a tenuous link to the tax system and, being delivered

as a cash payment, are more properly treated as direct transfers. Finally, we included the following items in the memorandum categories because they share the properties of special provisions listed in the reports as tax expenditures: child care expense deduction, moving expense deduction, deduction for farm losses for part-time farmers, deduction of resource-related expenditures, deduction of other employment expenses, deduction of union and professional dues, dividend gross-up and credit.

We have also grouped tax expenditures in a manner more useful for the purpose of a study on transfers to persons. Following Fiekowski's (1980) suggested classification and its implementation for Canada by Ruggeri and Vincent (1997) we divided tax expenditures into two major categories: pure tax expenditures and tax preferences. The former involve provisions which (a) are not an exception to a general rule in the relevant tax act, (b) can be delivered as a separate spending program at similar costs, and (c) their elimination would not affect the net fiscal position of the government assuming their replacement by a direct spending program. The latter refer to provisions which (a) are exceptions to general tax rules, (b) cannot be delivered as easily in the form of direct spending programs, and (c) their elimination would affect the fiscal position of the government unless it is accompanied by revenue-neutral tax rate changes. An example of a pure tax expenditure is the non-refundable age credit. Examples of tax preferences are the tax-assisted saving plans such as RRSPs. It should be stressed that both components (tax expenditures) are treated as indirect transfer payments in this paper. They provide a cash benefit in the form of a reduction in personal income tax payable thus increasing disposable income and the spending power of the beneficiaries in the same manner as a direct transfer.

Transfer payments are generally viewed as serving social policy objectives for the purpose of redistributing income in favour of the poor because many direct transfers are aimed at individuals and families with below-average income. This view is no longer valid when the definition of transfers to persons is expanded to include indirect transfers delivered as selected personal income tax reductions. To clarify this issue, we have further disaggregated pure tax expenditures and tax preferences (as well as direct transfers) into those items aimed at social policy objectives and those aimed at economic policy objectives. This way we can compare changes through time in the relative magnitude of direct versus indirect transfers and also transfers aimed at economic policy objectives versus transfers aimed at social policy objectives. This disaggregation is facilitated by the grouping of tax expenditures contained in the department of Finance reports. For example, the items listed under the “family” category are aimed at social policy objectives while the items under the heading of “employment” and “small business” serve economic policy objectives. A detailed breakdown of tax expenditures according to their main policy objectives is found in Ruggeri and Vincent (1997) whose classification approach is used in this paper. The detailed breakdown of direct and indirect transfers is shown in Appendix tables A1 and A2.

We are aware of the fact that tax expenditures are also incorporated in consumption taxes and corporate taxes. We have confined our analysis to the personal income tax for a variety of reasons. First, the tax expenditures in the PIT are clearly transfer payments to persons, whereas, those in the other taxes involve corporations or other public institutions. Second, although there is a list of tax expenditures for the GST, there is no corresponding list for other consumption taxes. Third, the list for the GST is not available for the entire sample period because this tax was introduced in 1991. Fourth, there is no comparable list for provincial sales taxes, which differ by province not only in

rates, as does the PIT, but also with respect to tax bases. Finally, assigning to individuals and families the benefits of corporate tax expenditures would require a full scale tax incidence model, a task beyond the scope of this study.

The Department of Finance's reports on tax expenditures contain data only for the federal government. Personal income taxes, however, are collected by the federal government on behalf of all provinces, except Quebec. These provincial PITs have a tax base related to the federal base and their rates, though varying by province, are applied to a measure of federal tax revenue called Basic Federal Tax (BFT). Therefore, the revenue loss from tax expenditures at the federal level is magnified by the provincial revenue loss. Even in Quebec, the definition of taxable income parallels closely the federal definition and the PIT contains most of the tax preferences found in the federal income tax. Estimating the revenue effects of tax expenditures at the provincial level would require the application of a detailed tax model to each provincial PIT. As an approximation one can use an average of provincial tax rates, which represent an average proportion of BFT, to estimate the provincial component. In our calculations, we used a value of 60% which represents an approximation of a weighted average of provincial tax rates in terms of the provincial share of taxable income. Therefore, in Table A2 the total value of tax expenditures was derived by multiplying the estimates for the federal government by 1.6. Published estimates of the cost of tax expenditures warn against adding the values of the individual items to obtain a total because of interaction among the various measures. Fougere, Ruggeri and Vincent (1997) have estimated that the bias in the summation of individual measures is less than 3% percent, therefore, adding up the cost of the individual measures, as is done in this paper, will affect the results only marginally.

### *B. Direct Transfers*

For direct transfers to persons we used the National Income Accounts (NIA) as the source of data. The NIA contain five major components of transfers to persons: transfers to individuals and families, transfers to selected organizations plus miscellaneous transfers, transfers under social insurance programs, pensions to public servants, and grants to post-secondary institutions. The last component in the above list is effectively a transfer within the public sector for the delivery of public services. It involves exhaustive expenditures and, therefore, is excluded from the list of transfer payments used in this paper. A similar treatment is given to pensions to public servants. This item is really a form of deferred compensation no different than pensions paid to private sector employees from Registered Pension Plans. The transfer associated with all these pensions, private and public, is the tax expenditures associated with the difference between the tax preferences for contributions and earnings and the taxation of principal and accumulated earnings; this component is captured in the indirect transfer category. Benefits under various social insurance programs are not strictly transfer payments. They are payments to beneficiaries financed from earmarked revenue. Individuals, or firms on their behalf, make contributions out of their labour earnings to a fund which is used to finance the pre-determined benefits. Moreover, the level of benefits for which a contributor is eligible depends on his\her level of contributions, although not in a dollar per dollar fashion. One may argue, therefore, that social insurance benefits should not be included in the list of transfer payments. What one may legitimately include is the difference between benefits paid and revenue collected. This is the approach used in this paper, where the concept of transfers which includes the net cost of social insurance programs is called "comprehensive definition" of transfers.

Transfers to selected organizations and miscellaneous transfers are a hybrid category that shares characteristics of transfers and exhaustive expenditures. When the government makes transfers to various organizations, the funds received may be used to provide direct assistance to clients or to provide services that might otherwise be supplied directly by the government. The latter component is equivalent to an exhaustive expenditure and should not be included in the definition of transfer payments. Because of the insurmountable difficulties in disentangling these two components, we have included the entire amount as transfer payments in what we call a “broad definition” of transfers. In the calculation of the “broad definition” we made an adjustment to the NIA data. The miscellaneous category in the NIA includes the GST credit. This credit is really a GST tax preference and not a direct transfer to persons, and is treated as such in the Department of Finance’s tax expenditure reports. Therefore, we have excluded this item from our list of direct transfers. We also excluded provincial transfers to school boards in Newfoundland which prior to 1996 were listed as part of miscellaneous transfers. All transfers to organizations and miscellaneous transfers were assigned to the “social objectives” group. To the extent that transfers to selected organizations and miscellaneous transfers include a portion of exhaustive expenditures, the “comprehensive” and “broad” definitions will have an upward bias. To the extent that some of those transfers serve economic policy objectives, our calculations will overestimate the level of social transfers and underestimate the level of economic transfers. When this category of transfers is excluded, we are left with a “narrow definition” of transfers. All three measures of direct transfers to persons are included in our analysis in order to determine how sensitive the results are to the definition of transfers.

### III. CHANGES IN TRANSFERS TO PERSONS

#### *A. Direct versus Indirect Transfers*

The values of direct and indirect transfers, their changes during the 1988-96 period and their relationship during the same period are shown in Table 1 and the detailed calculations are contained in Appendix Tables A1 and A2. A number of observations can be made from the information contained in Table 1.

First, indirect transfers are quite large both in absolute amounts and in relation to direct transfers. They amounted to \$53 billion in 1996. They were 13% higher than narrowly defined direct transfers, 7% higher than comprehensively defined ones and 11% lower than broadly defined ones.

These results suggest that confining the analysis of transfers to persons to direct transfers as is traditionally done, leaves out at least half of the transfers. Canada's use of the personal income tax system to deliver indirect transfers is one of the broadest among industrialized countries. According to a study by Ruggeri and Vincent (1997), the revenue foregone due to PIT tax expenditures as a percentage of PIT revenue is higher in Canada than in the U.S., the U.K., Australia and France.

Second, both direct and indirect transfers grew rapidly during the sample period. In absolute terms, the largest increase was recorded by broadly defined direct transfers which rose by \$21 billion. In percentage terms, the growth rate was highest for narrowly defined direct transfers which increased by 54%. Indirect transfers experienced the lowest increases, rising by \$10 billion or 24% during the same period.

The ratio of indirect to direct transfers fluctuated over the sample period, but generally followed a declining trend. Most of the decline, however, occurred during the 1988-92 period, when

direct transfers grew more rapidly than indirect transfers. Under the narrow definition, the ratio of indirect to direct transfers started at 140%, fell to 117% in 1992 and then drifted through a fluctuating pattern to 113% in 1996. For the broad definition, the drop occurred entirely in the second period, when the ratio of indirect to direct transfers fell from 111% to 90%, a value which held in 1996. Under the comprehensive definition, the ratio of indirect to direct transfers followed a u-shaped patterned. Starting at 126% in 1988, it fell to 90% in 1992 and then reversed course increasing to 107% in 1996.

Third, for both direct and indirect transfers, most of the increase occurred during the 1988-92 period, especially for direct transfers. A substantial deceleration in the growth of transfers occurred during the 1992-96 period. In fact, direct transfers comprehensively defined fell by nearly 11% during this period because of the surplus in the Employment Insurance account created by reform of this program after 1992.

*B. Transfers Aimed at Social Policy Objective versus Transfers Aimed at Economic Policy Objectives*

As mentioned earlier, transfers to persons are aimed at both social and economic objectives. Table 2 shows the relative importance of “social” transfers (and indirectly “economic” transfers) within the major categories of direct and indirect transfers to persons. This table supports the traditional view that direct transfers are aimed at social policy objectives. Whichever of the three definitions of direct transfers is used, the answer is the same: direct transfers to persons serve almost exclusively social policy purposes. This conclusion applies to the entire sample period, as the share of “social” transfers remained largely unchanged from 1988 to 1996. The same conclusion is

reached in the case of pure tax expenditures. They are truly substitutes for socially-oriented direct transfers and could be easily shifted to that category. Exactly the opposite conclusion applies to tax preferences as over 90% of them in terms of revenue foregone are aimed at economic policy objectives.

The detailed data in Appendix Table A2 shows that the economic objectives group of tax preferences is dominated by measures aimed at reducing the tax burden on income from capital. In 1996 tax preferences aimed at the above objective accounted for over three-quarters of total tax preferences and nearly two-thirds of total tax expenditures. It should be stressed that any PIT provision that reduces the tax burden on capital income has the effect of moving the PIT base from an income towards a consumption base. Our calculations indicate that the tax preferences incorporated in the PIT go a long way towards making the PIT base closer to a consumption tax base.

Table 3 divides direct and indirect transfers into the “social” and “economic” categories. This classification is useful in evaluating the distributional implications of changes in the level and composition of total transfers. Social transfers are directed primarily at low and moderate income Canadians while economic transfers deliver benefits mostly to middle and high income Canadians. A number of observations arise from this table. First, over the entire period, “social” transfers grew at a much faster rate than “economic” transfers. Second, this difference in growth rates occurred entirely during the 1988-92 period. In the 1992-96 period of fiscal restraint, “economic” transfers grew faster than “social” transfers. In fact, under the comprehensive definition, “social transfers fell by 8.7% while “economic” transfers rose by 8.4%. Third, over the entire period, the ratio of “economic” to “social” transfers fell considerably. However, during the 1992-96 period this ratio

increased slightly under the narrow definition of direct transfers and substantially under the comprehensive definition. This result suggests that, during periods of fiscal restraint, indirect transfers, and particularly economic transfers, may be partly sheltered from budget cutting by their incorporation in the tax structure thus leading to a reduction in the redistributive impact of the total system of transfer payments to individuals and families.

### *C. Transfers as a Proportion of Tax Revenue*

Table 4 provides some information on the relationship between direct and indirect transfers and tax revenue for the purpose of determining whether transfers have become a heavier or lighter burden on government revenue during the sample period. In our calculations we used a measure of potential tax revenue calculated as actual tax revenue minus revenue from social insurance programs, because only the net expenditure was included in the concept of transfers, plus the revenue lost from personal income tax expenditures because these indirect transfers are paid from the potential revenue from a comprehensive income base. Similarly, potential PIT revenue was calculated by adding to actual revenue the foregone revenue from tax expenditures.

We notice from table 4 that, over the entire sample period, the ratio of total transfers to potential tax revenue fell moderately under all three concepts of transfers, but through a U-shaped pattern. Total transfers became an increasing burden on the tax system from 1988- to 1992 and then a lighter burden as fiscal restraint reduced their growth. In 1996 the sum of direct and indirect transfers accounted for a share of potential tax revenue in the range of 32% and 36%, depending on the concept of transfers used. The ratio of indirect transfers to potential PIT revenue fell moderately throughout the entire period. Starting at 35.2% in 1988, to 33.0% in 1992 and to 31.7% in 1996.

## IV. CONCLUSION

This paper analyzed the pattern of transfer payments to persons during the 1988-96 period. We argued that for a complete picture of transfer payments it is important to include direct cash transfers as well as indirect transfers delivered as special tax reductions through the personal income tax system. Otherwise not only we get part of the story, but we may get the wrong story. Our conclusions can be briefly summarized as follows.

1. The indirect transfers incorporated in the personal income tax system are ubiquitous in scope and large in terms of revenue foregone. In 1996 they represented 55% to 64% of direct cash transfers, depending on whether the latter were defined broadly or narrowly.

2. Direct and indirect transfers serve different objectives. The former are largely aimed at social policy objectives while the latter are aimed mainly at economic policy objectives. The bulk of the "economic" indirect transfers are related to measures to lessen the burden of taxation on capital income. They tend to move the PIT base from an income base towards a consumption base.

3. Both sets of transfers grew rapidly during the 1988-92 period, with the growth rate being higher for direct transfers. In the fiscal restraint period of 1992-96, both direct and indirect transfers grew at a much lower rate.

4. When we use the comprehensive definition of direct transfers, which includes the net transfers from social insurance programs, we notice that during the 1992-96 period direct transfers fell, primarily because of the EI reform, while indirect transfers continue to grow, though at a lower rate than in earlier years. While some direct transfers felt the pressure of fiscal restraint, indirect transfers escaped largely unscathed.

The incorporation of tax expenditures into the analysis of transfer payments leads to a number of important policy implications.

*Redistribution* Direct transfers, which were shown to serve almost entirely social objectives, redistribute income in favour of low income Canadians (( Ruggeri, Howard and Van Wart (1996)). We have shown in this paper that pure tax expenditures also serve social objectives and they are targeted to low and middle income Canadians. However, they represent only a small portion of total tax expenditures in terms of revenue foregone. Over three-quarters of tax expenditures are in the form of tax preferences and these are aimed almost exclusively to economic objectives. These tax preferences provide benefits primarily to middle and high income Canadians (St-Hilaire (1995), Fougere, Ruggeri and Vincent (1997)), particularly in the case of tax-assisted saving plans. These indirect transfers, which represent a large share of total transfers, therefore, provide a large offset to the redistributive effect of direct transfers thus making the total transfer system much less progressive.

*Different Decision-Making Processes* Our analysis suggests that the government uses two different vehicles for delivering “social” and “economic” transfers to persons. For the former it uses direct cash payments and for the latter it uses the personal income tax system. This separation of delivery mechanisms has important implications for both policy analysis and policy-making. As government expenditures, social transfers delivered as direct transfers are highly visible and are evaluated periodically as part of government spending reviews. Economic transfers delivered as special tax breaks, on the other hand, are hidden behind a complex tax code and are considered only when tax policy issues are reviewed. This differential treatment may distort policy priorities as illustrated by the recent experience with fiscal restraint. In the area of direct transfers, the

Employment Insurance programs was reviewed in details and restructured by reducing benefits to pre-1971 levels. At the provincial level, social assistance programs were also subjected to in depth reviews which led to substantial reductions in benefit rates. Yet very little attention was paid to the economic transfers incorporated in the personal income tax system, although they involve equally large amount of indirect spending. While the effectiveness of direct transfers was called into question, indirect transfers were not even considered for review.

*Tax Expenditures and Fiscal Reform* The distinction between pure tax expenditures and tax preferences is particularly relevant when tax expenditures are reviewed for the purpose of reforming the fiscal structure. When a pure tax expenditure is taken out of the tax system and is delivered directly as a spending program, all that changes is the vehicle for delivering a spending program. No adjustments are needed to the structure and the integrity of the tax remains untouched. Let us consider the non-refundable age credit. This indirect transfer is strictly a demogrant as it delivers a fixed benefit on the base of age only. It could be easily delivered as a direct transfer by adding its tax value to the Old Age Security pension. In this case, both government spending and tax revenue would increase by the same amount and the net fiscal balance would remain unchanged.

Tax preferences, on the other hand, cannot be easily delivered as spending programs. In this case all the actions take place on the tax side and their changes become elements of tax policy. Thus, the issue of the most appropriate delivery mechanism seldom rises. Instead, the main issues are whether we should have these tax breaks and how large they should be. If a tax preference is eliminated, the offset for revenue-neutrality is not a spending program but a reduction in tax rates.

*Equity and Efficiency* Since direct transfers and pure tax expenditures serve mainly redistributive purposes, they raise primarily equity issues. Efficiency considerations may be

relevant for some programs, such as EI, but for the aggregate they are peripheral. Tax preferences, on the other hand, involve issues of economic efficiency because they are aimed at economic objectives and they are paid through higher tax rates. The economic evaluation of tax preferences, therefore, is directed at two fundamental questions. Do these selected tax breaks generate any economic benefits? Do these benefits exceed the economic costs of the higher income tax rates required to pay for those programs? If careful research yielded negative answers to either question, then the efficient policy option would be to eliminate these tax preferences and use the revenue for across the board reductions in personal income tax rates.

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Table 4 : Direct and Indirect Transfers as Percent of Potential Tax Revenue, 1988-1996

Year	Total Transfers as Percent of Tax Revenue			Indirect Transfers as % of Percent of Personal Potential Income Tax Revenue
	Narrow Definition	Broad Definition	Comprehensive Definition	
1988	32.9	36.3	34.2	35.2
1989	33.5	37.0	35.9	37.0
1990	32.7	36.6	35.2	32.8
1991	34.6	38.6	38.7	34.4
1992	34.5	39.1	39.0	33.0
1993	35.0	40.6	40.2	34.9
1994	38.4	42.7	41.6	39.8
1995	33.9	38.4	35.9	32.3
1996	31.9	35.9	32.7	31.7
Change				
1988~96	-1.0	-0.4	-1.5	-3.5
1988~92	1.6	2.8	4.8	-2.2
1992~96	-2.6	-3.2	-6.3	-1.3
%Change				
1988~96	-3.0	-1.1	-4.4	-9.9
1988~92	4.9	7.7	14.0	-6.2
1992~96	-7.5	-8.2	-16.2	-3.9

Table 1. Direct and Indirect Transfers to Persons, 1988-1996, \$Million and As Percent of Tax Revenue

Year	Direct Transfers			Indirect Transfers (4)	Total Transfers			Indirect As % of Direct Transfers		
	Narrow (1)	Broad (2)	Comp. (3)		Narrow (5)=(1)+(4)	Broad (6)=(2)+(4)	Comp. (7)=(3)+(4)	Narrow <sup>1</sup> (8)=(4)+(1)	Broad <sup>1</sup> (9)=(4)+(2)	Comp. <sup>2</sup> (10)=(4)+(3)
1988	30476	38615	34096	42794	73270	81409	76890	140	111	126
1989	32193	41397	38816	49819	82012	91216	88635	155	120	128
1990	35091	45571	42349	48994	84085	94565	91343	140	108	116
1991	39167	50538	50956	53206	92373	103744	104162	136	105	104
1992	42554	55257	55359	49757	92311	105014	105116	117	90	90
1993	44484	57632	56826	54331	98815	111963	111157	122	94	96
1994	45647	59185	55149	68946	114593	128131	125095	151	116	125
1995	46614	60097	53459	52955	94609	113052	106414	114	88	99
1996	46933	59430	49436	52906	99839	112336	102342	113	89	107
Change										
1988~96	16457	20815	15340	10112	26569	30927	25452	-27	-22	-19
1988~92	12078	16642	21263	6963	19041	23605	28226	-23	-21	-36
1992~96	4379	4173	-5923	3149	7528	7322	-2774	-4	-1	17
% change										
1988~96	54.0	53.9	50.0	23.6	36.3	38.0	33.1	-19.3	-19.8	-15.1
1988~92	39.6	43.1	62.4	16.3	26.0	29.0	36.1	-16.4	-18.9	-28.6
1992~96	10.3	7.6	-10.7	6.3	8.2	7.0	-2.6	-3.4	-1.1	18.9

Source: Tables A1 and A2; Statistics Canada CAT. No.13-201, National Income and Expenditure Accounts, Tables 42,43,44,45.

Notes:

- 1 Excludes revenue from social insurance programs and contributions to public service pensions;
- 2 Excludes contributions to public service pensions.

Table 2. "Social" Transfers as a Proportion of Total Transfers By Major Grouping of Transfers, 1988-1996

Year	Direct Transfers			Indirect Transfers	
	Narrow Definition	Broad Definition	Comprehensive Definition	Pure Tax Expenditures	Tax Preferences
1988	97.0	98.6	98.5	93.1	8.2
1989	98.2	98.6	98.5	95.1	6.0
1990	98.2	98.5	98.4	94.8	6.9
1991	98.2	98.6	98.6	95.0	7.6
1992	98.3	98.7	98.7	94.4	8.6
1993	98.4	98.7	98.7	94.1	8.1
1994	98.3	98.7	98.6	93.1	6.0
1995	98.5	98.9	98.7	92.8	8.7
1996	98.5	98.8	98.6	91.8	9.8

Table 3. Total Transfers: Social Policy vs. Economic Objectives, \$Million

Year	Social Policy Objectives			Economic Policy Objectives	Economic Policy Objectives as % of Social		
	Narrow Definition	Broad Definition	Comprehensive Definition		Narrow Definition	Broad Definition	Comprehensive Definition
1988	40334	48473	43954	32935	81.7	67.9	74.9
1989	41459	50663	48082	37952	91.5	74.9	78.9
1990	46106	56586	53364	37978	82.4	67.1	71.2
1991	51506	62877	63295	40883	79.4	65.0	64.6
1992	55282	67985	68087	37028	67.0	54.5	54.4
1993	57813	70961	70154	41002	70.9	57.8	58.4
1994	57847	71385	67348	56745	98.1	79.5	84.2
1995	59197	72680	66042	40372	68.2	55.5	61.1
1996	59665	72162	62168	40158	67.3	55.6	64.5
Change							
1988~96	19331	23689	18214	7223	-14.4	-12.3	-10.4
1988~92	14948	19512	24133	4093	-14.7	-13.4	-19.6
1992~96	4383	4177	-5919	3130	0.3	1.1	10.1
%Change							
1988~96	47.9	48.9	41.4	21.9	-17.6	-18.1	-13.9
1988~92	37.1	40.2	54.9	12.4	-18.0	-19.7	-26.5
1992~96	7.9	6.1	-8.7	8.4	0.5	2.0	18.6

Table 4 : Direct and Indirect Transfers as Percent of Potential Tax Revenue, 1988-1996

Year	Total Transfers as Percent of Tax Revenue			Indirect Transfers as % of Percent of Personal Potential Income Tax Revenue
	Narrow Definition	Broad Definition	Comprehensive Definition	
1988	32.9	36.3	34.2	35.2
1989	33.5	37.0	35.9	37.0
1990	32.7	36.6	35.2	32.8
1991	34.6	38.6	38.7	34.4
1992	34.5	39.1	39.0	33.0
1993	35.0	40.6	40.2	34.9
1994	38.4	42.7	41.6	39.8
1995	33.9	38.4	35.9	32.3
1996	31.9	35.9	32.7	31.7
Change				
1988~96	-1.0	-0.4	-1.5	-3.5
1988~92	1.6	2.8	4.8	-2.2
1992~96	-2.6	-3.2	-6.3	-1.3
%Change				
1988~96	-3.0	-1.1	-4.4	-9.9
1988~92	4.9	7.7	14.0	-6.2
1992~96	-7.5	-8.2	-16.2	-3.9



Table A1. Direct Transfers to Persons, 1988-96, \$ Million, Continued

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Grants to Native Peoples	1701	1863	2209	2376	2573	2886	3027	3567	3563
Subtotal	1701	1863	2209	2376	2573	2886	3027	3567	3563
Subtotal Social Policy Objectives: Narrow Definition	29955	61638	34426	38476	41828	43757	44868	45927	46244
<b>Other Transfers to Persons</b>									
Federal Transfers to National Organization and Grants from Canada Council	237	255	281	282	396	417	316	248	238
Provincial Transfers to Benevolent Associations	4855	5930	6912	7782	8660	8701	9002	9126	6713
Local Transfers to Charitable and other organizations	103	104	107	109	93	73	73	73	71
Miscellaneous Federal and Provincial Transfers	2944	2915	3180	3198	3554	3957	4247	4035	5475
Subtotal	8602	97067	10992	11408	13280	13741	14073	14008	12497
Subtotal Social Policy Objectives: Broad Definition	38094	40842	44906	49847	54531	56905	58406	59410	58744
<b>Net Social Insurance Transfers</b>									
Unemployment Insurance Benefits	-856	1130	92	21259	726	-1027	-4928	-6608	-6500

Table A1. Direct Transfers to Persons, 1988-96, \$ Million, Continued

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Canada/Quebec Pension Plan Benefits	-2276	-2143	-2352	-1668	-340	708	1431	802	1000
Workers' Compensation Benefits	-1382	-1568	-962	-173	-284	-487	-519	-832	-2494
Subtotal	-4519	-2581	-3222	418	102	-806	-4036	-6638	-9994
Subtotal Social Policy Objectives Comprehensive Definition	33575	38261	41684	50265	54643	56099	54370	52772	48750
<b>Economic Policy Objectives</b>									
<i>Human Capital</i>									
Scholarships and Grants	521	555	665	691	726	727	779	687	686
Subtotal Economic Policy Objectives	521	555	665	691	726	727	778	687	686
Total: Narrow Definition	30476	32193	35091	39167	42554	44484	45647	46614	46933
Total: Broad Definition	38615	41397	45571	50538	55257	57632	59185	60097	59430
Total: Comprehensive Definition	34096	38816	42349	50956	55359	56826	55149	53459	49436

Table A2. Pure Tax Expenditure and Tax Preferences in the Personal Income Tax System: 1988-1996<sup>1</sup>, \$Million

	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>PURE TAX EXPENDITURES</b>									
<b>Social Policy Objectives</b>									
<i>Family</i>									
Spousal Credit	1105	1105	1055	1100	1140	1205	1190	1200	1190
Credits for Dependents Other than Spouse	850	915	925	965	1020	467	480	476	467
<b>Subtotal</b>	1955	2020	1980	2065	2160	2372	1670	1676	1657
<i>Elderly</i>									
Non-Taxation of GIS and SPA	205	220	230	235	290	225	260	285	285
Age and Pension Income Credits	1020	1270	1425	1600	1650	1675	1615	1620	1655
Non-Taxation of Benefits to Veterans	168	173	175	183	194	146	146	144	143
<b>Subtotal</b>	1393	1663	1830	2018	2134	2046	2021	2049	2083
<i>Other</i>									
Charitable Donations Credit	691	770	845	888	892	914	930	984	1020
Credit for Medical Expenses	130	150	190	210	225	260	260	305	330
Disability Credit	105	150	190	255	265	270	275	270	265
Non-Taxation of Social Assistance Payments	395	415	515	605	595	680	705	635	620
Deduction for Clergy Residence	38	40	45	48	50	48	49	50	51

Table A2. Pure Tax Expenditure and Tax Preferences in the Personal Income Tax System: 1988-1996, \$Million, Continued

	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>Subtotal</b>	1359	1525	1785	2006	2020	2172	2219	2244	2286
Subtotal Social Policy Objectives	4707	5208	5595	6089	6314	6590	5910	5969	6026
<b>Economic Policy Objectives</b>									
<i>Cost of Investment in Human Capital</i>									
Tuition and Education Credit Including Portion Transferred to Others, plus Non-Taxation of Scholarships	349	267	302	322	374	415	439	460	539
<b>Subtotal</b>	349	267	302	322	374	415	439	460	539
Subtotal Economic Policy Objectives	349	267	302	322	374	415	439	460	539
Subtotal Pure Tax Expenditures	5056	5475	5897	6411	6688	7005	6349	6429	6565
<b>TAX PREFERENCES</b>									
<b>Social Policy Objectives</b>									
<i>Health</i>									
Non-Taxation of Employer-Paid Health Benefits	980	685	760	990	1125	1200	1270	14440	1485
<b>Subtotal</b>	980	685	760	990	1125	1200	1270	1440	1485
<i>Other</i>									
Non-Taxation of Employer-Paid Premium for Group Term Life Insurance	130	135	140	155	160	165	87	----	



Table A2. Pure Tax Expenditure and Tax Preferences in the Personal Income Tax System: 1988-1996, \$Million, Continued

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Preference Treatment of RPP and RRSP	10750	11925	14010	14745	13720	15770	17150	17835	17365
\$100,00 Lifetime Capital Gains Exemption	855	985	755	665	735	1170	8815	----	-----
Partial Inclusion of Capital Gains	1010	1425	695	665	260	385	385	405	315
Relief for Limited Partnership Losses	125	170	195	230	220	215	295	195	180
Other <sup>2</sup>	546	634	760	712	654	681	622	747	661
<b>Subtotal</b>	<b>13286</b>	<b>15139</b>	<b>16415</b>	<b>17017</b>	<b>15589</b>	<b>18221</b>	<b>27267</b>	<b>19182</b>	<b>18521</b>
<i>Housing</i>									
Non-Taxation of Capital Gains on Principal Residences	3680	4655	3305	4425	3215	2385	2390	1445	1660
<b>Subtotal</b>	<b>3680</b>	<b>4655</b>	<b>3305</b>	<b>4425</b>	<b>3215</b>	<b>2385</b>	<b>2390</b>	<b>1445</b>	<b>1660</b>
<i>Cost of Earning Income</i>									
Child Care Expense Deduction	245	265	300	295	315	305	305	395	415
Deduction for Meals and Entertainment <sup>3</sup>	80	85	115	100	80	110	110	97	120
Deduction of Union and Professional Dues	315	355	385	410	440	465	465	505	505
Deduction for Moving Expenses	61	69	69	65	59	66	64	61	61
Deduction for Other Employment Expenses	425	500	485	485	455	490	540	540	575

Table A2. Pure Tax Expenditure and Tax Preferences in the Personal Income Tax System: 1988-1996, \$Million, Continued									
	1988	1989	1990	1991	1992	1993	1994	1995	1996
Other <sup>4</sup>	258	271	282	291	304	287	247	237	289
<b>Subtotal</b>	1384	1545	1636	1646	1653	1723	1731	1835	1965
<i>Other</i>									
Dividend Tax Credit and Gross-up	590	655	660	700	640	635	645	730	815
<b>Subtotal</b>	590	655	660	700	640	635	645	730	815
Subtotal Economic Policy Objective	19910	23106	23019	24798	22315	24757	34540	24343	24131
Subtotal Tax Preferences	21690	25662	24724	26843	24410	26952	36742	26668	26501
Total Tax Expenditures	26746	31137	30621	33254	31098	33957	43091	33097	33066

Notes: 1. As explained in the text, all numbers in this table are multiplied by 1.6 in our calculations.

2. Includes investment tax credit, deduction of carrying charges included to earn income and flow-through of CCA on Canadian films.

3. Not recorded for 1988 and 1989 since the recorded values for subsequent year are stable at about \$100 Million. This value was used as an estimate for the missing years.

4. Includes non-taxation of strive pay, non-taxation of allowances to volunteer firefighters, deduction of home relocation loans, and overseas employment, employee stock options, northern allowance.

