



## LEGISLATIVE SUMMARY

# BILL C-20: AN ACT TO AMEND THE NOVA SCOTIA AND NEWFOUNDLAND AND LABRADOR ADDITIONAL FISCAL EQUALIZATION OFFSET PAYMENTS ACT

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For clarity of exposition, the legislative proposals set out in the bill described in this Legislative Summary are stated as if they had already been adopted or were in force. It is important to note, however, that bills may be amended during their consideration by the House of Commons and Senate, and have no force or effect unless and until they are passed by both houses of Parliament, receive Royal Assent, and come into force.

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*Legislative Summary of Bill C-20*  
(Legislative Summary)

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## 1 BACKGROUND

Bill C-20, An Act to amend the Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act,<sup>1</sup> was introduced in the House of Commons on 3 February 2021 by the Deputy Prime Minister and Minister of Finance.

Bill C-20 requires the Minister of Finance to make additional fiscal equalization offset payments to Nova Scotia from 2020–2021 to 2022–2023. These payments will offset the equalization payment reductions over that period that result from an arbitration settlement the province received in 2018, concerning past royalties from an offshore natural gas project.

Each year, the federal government makes equalization payments to less prosperous provincial governments to enable them “to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation.”<sup>2</sup>

Equalization payments are calculated using a formula that determines the per capita fiscal capacity of each province; provinces with a per capita fiscal capacity lower than the average of the 10 provinces receive a payment to make up for that difference. Fiscal capacity is based on all provincial government revenues, divided into five categories: personal income taxes, business income taxes, consumption taxes, property taxes and natural resource revenues. For all revenue categories, except natural resource revenues, fiscal capacity is the amount of revenue that would be generated if all provinces had identical average tax rates.

For natural resource revenues, actual revenue figures rather than an average tax rate are used to calculate fiscal capacity for that category. This is necessary because of the wide range of natural resources and royalty systems used across the provinces. Equalization entitlements are calculated in two ways: by including 50% of natural resource revenues, and by excluding these revenues. The option that yields the largest payment is the one selected.<sup>3</sup>

In 2005, the federal government reached an arrangement with the government of Nova Scotia under which the province received payments that fully offset the equalization payment reductions that result from including offshore natural resource revenues in the determination of fiscal capacity. This arrangement was made in

recognition of “the unique economic and fiscal challenges faced by Nova Scotia and the strong commitment of the province to improve its fiscal situation.”<sup>4</sup> It was implemented with the adoption of the *Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act*.<sup>5</sup> Table 1 shows the payments Nova Scotia received through this arrangement from 2012–2013 to 2019–2020.

**Table 1 – Additional Payments Received by Nova Scotia under the 2005 Arrangement Between the Government of Canada and the Government of Nova Scotia on Offshore Revenues and Equalization Payments Received by that Province (\$ millions)**

	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020
Additional Offshore Offset Payments	146	89	64	37	33	20	18	8
Equalization Payments	1,268	1,458	1,619	1,690	1,722	1,779	1,933	2,015

Source: Figure prepared by the Library of Parliament using data obtained from Government of Canada, [“Federal Support to Nova Scotia,”](#) *Major federal transfers*.

In 2018, Nova Scotia received a one-time settlement of \$232 million following an arbitration ruling that recalculated royalties previously received from the Sable Offshore Energy Project.<sup>6</sup> Since equalization payments in a given year are based on a three-year moving average with a two-year lag, this settlement will reduce Nova Scotia’s equalization payments for 2020–2021 to 2022–2023. However, the province will not receive offset payments for these reductions, because the 2005 arrangement expired on 31 March 2020. Bill C-20 essentially extends the 2005 arrangement for three years to ensure that Nova Scotia is not penalized because of the timing of the settlement.

## 2 DESCRIPTION AND ANALYSIS

Bill C-20 contains one clause that amends the *Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act* to require the Minister of Finance to make an additional fiscal equalization offset payment of \$85.6 million to Nova Scotia for the 2020–2021 fiscal year. For each of the 2021–2022 and 2022–2023 fiscal years, the Minister is also required to make an additional fiscal equalization offset payment to Nova Scotia in the amount determined under the terms of the 2005 arrangement, provided that the province receives an equalization payment for the same fiscal year.

The Department of Finance has indicated that the amount for 2021–2022 will be \$44 million and that estimates for 2022–2023 will be calculated in December 2021.<sup>7</sup>

NOTES

1. [Bill C-20, An Act to amend the Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act](#), 43<sup>rd</sup> Parliament, 2<sup>nd</sup> Session.
2. Government of Canada, [Equalization Program](#).
3. For more information on fiscal equalization, see Édison Roy-César, [Canada's Equalization Formula](#), Publication no. 2008-20-E, Library of Parliament, 4 September 2013.
4. Government of Canada, [Arrangement between the Government of Canada and the Government of Nova Scotia on Offshore Revenues](#), 14 February 2005.
5. [Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act](#), S.C. 2005, c. 30, s. 85.
6. Department of Finance Canada, [One-time extension of the Arrangement on Offshore Revenues with Nova Scotia](#), Backgrounder, 3 February 2021.
7. Department of Finance Canada, [Government introduces legislation for one-time extension of the Arrangement on Offshore Revenues with Nova Scotia](#), News release, 3 February 2021.