CANADIAN Taxpayers FEDERATION

Fighting for taxpayers

Canadian Taxpayers Federation Submission to the Saskatchewan Business Tax Review Committee

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today the CTF has over 61,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change in Calgary dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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Introduction

The goal of the Canadian Taxpayers Federation recommendations in this submission is to reduce the burden of taxation on Saskatchewan productivity in order to increase employment, grow the economy and enhance the lives of Saskatchewan families.

The reality in Saskatchewan, which requires no quantification in this submission, is that our economy has underperformed for decades. Our population has been in slow but steady decline, average weekly earnings lag behind other provinces and our demographics paint a disconcerting portrait of our future – where the number of taxpayers shrink in proportion to the number of government dependants.

It is well-documented that Saskatchewan's business tax structure has played a role in our underachievement. We are encouraged that the government tacitly acknowledges this by establishing the Committee.

We strongly recommend that any changes made to the business tax structure as a result of the Committee's work should be directed at fostering investment in Saskatchewan and lowering the cost of doing business in our province.

Recommendations

Recommendation 1: Phase out the corporate capital tax

It's well-known that Saskatchewan's Corporate Capital Tax is among the most punishing in North America. Capital taxes are a direct inhibitor to investment as they draw not from profits but from investment. It's almost unanimous in the investment and academic communities that capital taxes inhibit economic growth.

An upgrade of the province's business tax structure would be woefully inadequate without the complete abolition of corporate capital taxes.

The British Columbia government abolished their corporate capital tax on general corporations and have seen significant economic growth. Since the British Columbia tax reforms began taking effect in 2001, that province has enjoyed GDP growth of 10 per cent, at an average annual growth rate of 3.2 per cent. The average annual growth rate over the seven years leading up to 2001 was only 2.6 per cent.

In the years 1994 to 2004, Saskatchewan's average annual GDP growth ranks a distant last in the country. From 1994 to 2001, Saskatchewan's GDP growth ranks last among the provinces and BC ranks 7th. Since the 2001 BC tax reforms their average GDP growth ranks second best in Canada, while Saskatchewan's ranks 6th.

GDP GROWTH BY PROVINCE

	Value in $ millions			Average annual increases		
	1994	2001	2004	1994 to 2001	2001 to 2004	1994 to 2004
Canada	**$810,695**	**$1,038,845**	**$1,126,625**	**3.6%**	**2.7%**	**3.3%**
British Columbia	$105,669	$126,229	$138,783	2.6%	3.2%	2.8%
Alberta	$95,278	$123,120	$134,330	3.7%	2.9%	3.5%
Saskatchewan	$26,968	$30,699	$33,116	1.9%	2.6%	2.1%
Manitoba	$27,753	$33,115	$35,163	2.6%	2.0%	2.4%
Ontario	$328,500	$437,600	$471,827	4.2%	2.5%	3.7%
Quebec	$177,782	$217,825	$236,156	2.9%	2.7%	2.9%
Prince Edward Island	$2,546	$3,102	$3,410	2.9%	3.2%	3.0%
Nova Scotia	$19,090	$23,641	$25,500	3.1%	2.6%	2.9%
Newfoundland	$10,672	$12,478	$15,439	2.3%	7.4%	3.8%
New Brunswick	$16,013	$19,181	$21,162	2.6%	3.3%	2.8%

Source: Sask Trends Monitor from Statistics Canada Provincial Economic Accounts

Recommendation 2: Eliminate the PST on business inputs

The province has addressed PST on business inputs in a piecemeal fashion. Municipal governments and local authorities are exempt from paying the tax, in what is clearly an acknowledgment by government of the significant costs associated with the PST.

In recent years, British Columbia has eliminated their provincial sales tax on certain business inputs. The Saskatchewan government should go one step further and completely exempt businesses from the tax.

At best, PST costs are transferred to consumers in the form of higher prices and lower wages for workers. At worst, it is a strong disincentive to conduct business in our province and a significant competitive disadvantage for businesses in the global market place.

Eliminating the PST on business inputs would be a bold and aggressive move toward making Saskatchewan a more competitive jurisdiction.

Recommendation 3: Reduce the corporate income tax rate to 11.5 per cent and eliminate the 10 per cent M&P rate

Saskatchewan has the highest corporate income tax (CIT) rate in Canada. The CIT represents a small fraction of government revenues, but imposes a strong disincentive to doing business in Saskatchewan.

The reality that we must face is that we are in direct competition with Alberta for capital investment, and that is where our CIT compares most unfavourably. Alberta’s rate now stands at 11.5 per cent – a huge step down from Saskatchewan’s 17 per cent rate. In addition, our top rate compares unfavourably with Manitoba’s 15.5 per cent rate – a major competitor in the highly-prized value-added agriculture sector.

To ameliorate the deleterious affects of our high general CIT rate, the province offers a 7 per cent non-refundable tax rebate for the manufacturing and processing (M&P) sector. This exemption does not achieve its goal because it is too narrowly applied and primarily benefits local operators. The goal is to attract fresh outside investment, not to create an artificial advantage for local established businesses.

The M&P rate should be abandoned in favour of a low overall corporate income tax rate with fewer exemptions.

Conclusion

The three recommendations included in this report are aimed at creating a simple, fair and competitive corporate tax structure – something that is desperately needed in Saskatchewan.

The drain of our young people to other province represents a significant threat to the long term sustainability of our province. Past policies, including the current tax structure, have not worked. It's time to listen to the business community and the economists – the people who understand how wealth is created – and make the necessary changes.

The obvious question that arises when proposing lower tax rates is how the province can "afford" to reduce revenues while striving for a balanced budget. The CTF strongly advocates for balanced budgets and legislated debt reduction plans. The point that needs to be accepted by government is that the province cannot afford inaction. Dramatic changes are required to foster the growth we need to ensure long term sustainability.

The table below illustrates how business tax revenues represent a relatively small portion of own source revenues, especially when compared with transfers from the federal government.

Business Tax Revenue Sources in Saskatchewan

	Estimated 2005/06 (Thousands)	As a Percent of Total Own-Source Revenues	Updated Forecast 2004/05 (Thousands)	As a Percent of Total Own-Source Revenues
Corporate Capital Tax	$373,700	6.5	$367,300	6.1
Corporate Income Taxes	$322,100	5.6	$257,700	4.3
Sales Taxes[1]	$509,500	8.8	$495,850	8.2
Transfers from Federal Gov't	$1,226,700	17.5	$1,665,400	21.6

Note 1: 50% of sales tax revenues are applied since roughly half of all sales tax revenues are garnered from business inputs

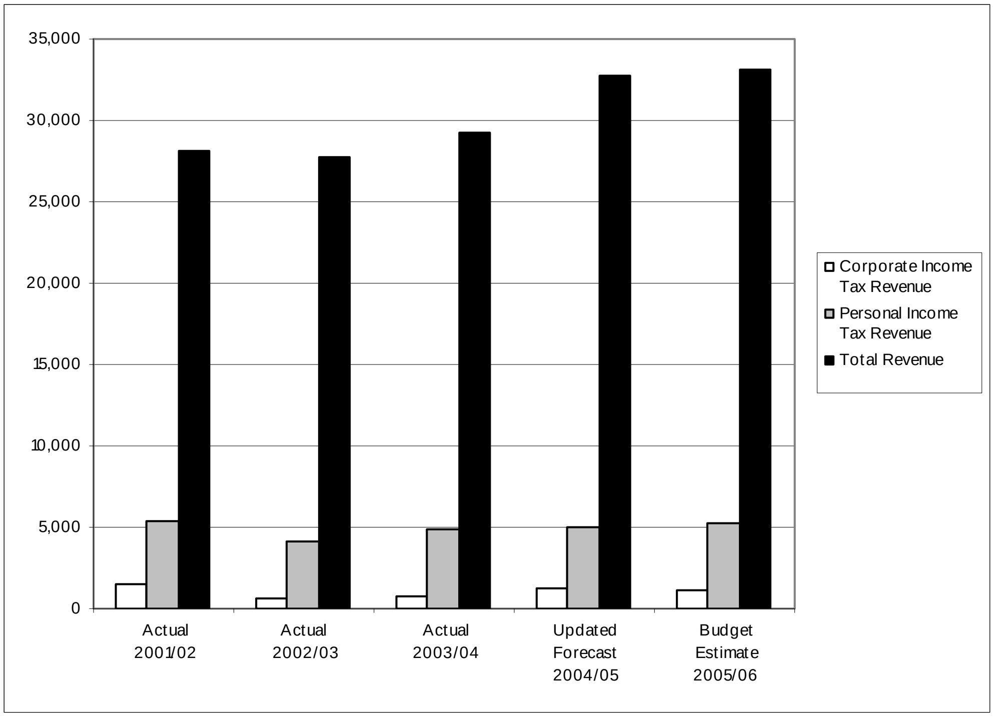
Source: SK Department of Finance, 2005a and 2005b; calculations by the authors.

Fraser Institute Submission to the Business Tax Review Committee, 2005

In order to best estimate the overall impact on government revenues we should look to British Columbia, the province that most recently under took such reforms. The 2001 British Columbia budget reduced dividend tax credits, reduced the corporate income tax rate from 16.5 per cent to

13.5 per cent, began phasing out the corporate capital tax and cut personal income taxes by 25 per cent.

In the first year after the tax cuts British Columbia government revenues declined by 1.3 per cent, and then rose steadily in the subsequent years. Since 2002/03 total government revenues have increased by 18 per cent.



Source: British Columbia Budget 2005 documents

When undertaking the required changes, the government must reaffirm it's commitment to fiscal responsibility. Government must prioritize and reduce expenditures to make these changes a reality.

Once fully implemented, however, we may be surprised at level of investment in Saskatchewan and the resultant increases in government revenue.