CANADA WEST FOUNDATION ECONOMIC RESEARCH SERIES

A Tax Framework for Saskatchewan's Continuing Prosperity

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Chapters

Canada West Foundation

CANADA IS STRONGER WHEN THE WEST IS THRIVING!

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Background

In early 2010, the Canada West Foundation was asked by the Saskatchewan Chamber of Commerce whether the Foundation's research and tax suggestions in a previous report entitled *Ready for Take-Off* could be applied more directly and purposefully to circumstances in Saskatchewan (Vander Ploeg 2009). The Foundation was pleased to accept the invitation—on condition that researchers would work independently and issue their own assessment in a final report. Consequently, a report was developed by the Canada West Foundation at the request of the Saskatchewan Chamber of Commerce and its funding partners—the Institute of Chartered Accountants of Saskatchewan, the Certified Management Accountants of Saskatchewan, the Certified General Accountants of Saskatchewan, and the Association of Saskatchewan Realtors. The result is *A Tax Framework for Saskatchewan's Continuing Prosperity (the "Framework").*

Purpose

The purpose of the *Framework* is to help the citizens of Saskatchewan and their public decision-makers grapple with two fundamental questions. First, how competitive is Saskatchewan's tax policy? Second, if there are indeed aspects of Saskatchewan's tax system that are wanting, what are the options and alternatives? Finding a measure of consensus around the answers hit directly on the future prospects of Saskatchewan, and the time for careful consideration and thoughtful answers has arrived.

Saskatchewan's Challenge

This timing is marked by the unique alignment of a significant challenge with a significant opportunity. The challenge of a competitive tax system hits hard in Saskatchewan. Saskatchewan is neighbour to British Columbia and Alberta—the two jurisdictions in Canada with some of the lowest tax rates (e.g., personal and corporate income taxes). But Saskatchewan is now a partner with BC and Alberta too, having joined to create a new interprovincial free trade zone in western Canada through the *New West Partnership.* This brings additional pressure to build and maintain a competitive provincial tax position.

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Saskatchewan's Opportunity

While the challenge for Saskatchewan may appear daunting, it does not stand alone. The challenge is accompanied by tremendous opportunity. During the last half of the past decade, Saskatchewan had the fastest growing economy in Canada, and the prospects for future growth across the next decade are more than good.

The province is also in strong fiscal shape. Debt has fallen from $8.0 billion in 2003/04 to $4.1 billion today, and the province's net financial assets are $10.4 billion compared to $8.9 billion in 2007/08 (Beauchemin and Shaw 2010). The General Revenue Fund (GRF) is the main operating fund for the province, and it has only a modest shortfall budgeted for 2010/11 at $174 million, funded through the province's own savings (Gauthier 2010). As the economy pulls out of the recession, the fiscal picture can only improve.

Given Saskatchewan's sizeable natural resource endowments, competitive companies, and the growth prospects for commodities in rapidly growing markets such as China, there is not just the prospect of stronger economic growth, but the promise of increased resource revenue as well. If that can be effectively managed and invested, there is also the potential for interest and dividend income over the long-term to help fund various tax reform efforts.

Saskatchewan's opportunity in the next decade centres around the very real prospect of a growing economy and a much larger tax base that comes with that growth. A larger tax base will provide opportunity to pursue—affordably—a package of tax reforms and reductions that can cement many of the province's recent economic gains. If Saskatchewan can reform and reduce its taxes in a strategic fashion to promote business competitiveness and investment, while maintaining critical social and infrastructure investment, then the province is sure to win the ability to lever even greater economic gains—emboldening a virtuous circle of future growth, prosperity, and opportunity. Saskatchewan is already western Canada's *"Land of Living Skies."* Would that those skies had no limits?

The Reforms

The *Framework* identifies seven specific reforms that can serve as the basis for a renewal of taxation in Saskatchewan, and the establishment of a more competitive tax position. The first six reforms touch on provincial

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personal income tax, the financial corporate capital tax, and the education and municipal property tax (including residential and non-residential, with non-residential defined as commercial and industrial property excluding agricultural property). The seventh reform speaks to improving the competitiveness of Saskatchewan business and easing the tax burden on capital investment. Since there are numerous ways to achieve that objective, the *Framework* identifies three options.

Reform #1: Education Property Tax (Residential and Non-residential)	
Action:	Transfer additional education funding away from the property tax to other provincial tax sources
Affects:	All property owners
Timing:	2011-2012
Impact:	$55 million (reduced revenue)

Reform #2: Education Property Tax (Non-residential)	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties
Affects:	Non-residential property owners and those that lease such property
Timing:	2011-2014
Impact:	$135 million (reduced revenue)

Reform #3: Municipal and Education Property Tax (Residential and Non-residential)	
Action:	Assessment cycle reduced from 4 years to 2 years, and a program of administrative simplification
Affects:	All property owners
Timing:	2011-2014
Impact:	$1 million (one-time expenditure for transitional purposes)

Reform #4: Personal Income Tax	
Action:	Move to a dual rate structure of 9% and 12%
Affects:	All taxpayers with taxable income
Timing:	2013-2018
Impact:	$525 million (reduced revenue)

Reform #5: **Municipal Property Tax (Non-residential properties in Regina and Saskatoon)**	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties
Affects:	Regina and Saskatoon non-residential property owners
Timing:	2017
Impact:	$0 (funded through incremental growth in the property tax base over time)

Reform #6: **Financial Corporate Capital Tax**	
Action:	Eliminate
Affects:	Financial institutions
Timing:	2019
Impact:	$21 million (reduced revenue)

Reform #7: **Improve the competitiveness of Saskatchewan business (3 options)**	
OPTION A	
Reform:	Provincial Sales Tax
Action:	Harmonize PST with GST at a provincial rate of 7%
Affects:	All Saskatchewan taxpayers
Timing:	2017
Impact:	$75 million (increased revenue)
OPTION B	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 9% and small business rate to 3%
Affects:	Incorporated businesses
Timing:	2017-2018
Impact:	$232 million (reduced revenue)
OPTION C	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 10%, small business rate to 3.5%, provide PST offsets
Affects:	Incorporated businesses
Timing:	2017-2018
Impact:	$150 million (reduced revenue)

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Developing the Reforms

The *Framework* identifies a package of bold and innovative tax reform options for Saskatchewan. To place them in context, historical tax developments across Canada and Saskatchewan were tracked, the current state of tax reform in Canada was detailed, and a comparative analysis of Saskatchewan's tax competitiveness was undertaken. A set of evaluative criteria was also established to help guide the selection of the reforms, which also factored in the opinions of 800 Saskatchewan residents.

Principles for Tax Reform

Each of the reforms was selected based on its ability to satisfy a rigorous set of evaluative criteria that speak to sound principles of tax policy and major themes from the economic and tax policy community on how to build a more competitive tax system. Many of the reforms speak to similar goals, such as improving equity and fairness, reducing complexity, increasing visibility, transparency, and accountability, improving tax administration, and employing taxes in a more economically neutral fashion. The reforms are broad-based, they intend to improve the tax mix, and also lower the tax burden on savings and investment. The reforms are bold. They are also thoughtful and realistic.

Fiscal Impact

The fiscal impact of the reforms as a package—the cost to the provincial treasury—differs. Much depends on if Option A, Option B, or Option C of Reform #7 is pursued. The reforms including Option 7-A would have a fiscal impact of $662 million. The reforms including Option 7-B would have a fiscal impact of $969 million. The reforms including Option 7-C would have a fiscal impact of $887 million.

Implementation

Given the significance of the reforms and their fiscal impact, the best approach would be to phase them in over a long period of time. This provides government with sufficient time to explore the optimal ways to fund the reforms, allows the fiscal impact to spread out across the coming years, and provides the economy with time to grow, expand, and beneficially adapt as the reforms unfold. If future growth and expansion of the Saskatchewan economy is indeed on a new growth track, then over time this itself will provide some of the necessary funding through an enhanced tax base. Economic modeling and forecasting would clarify the extent to which this might occur, and also clarify the extent to which the reforms themselves might boost economic growth and be self-financing. All of that, however, was outside the scope of this effort.

A particular advantage of the long implementation period is how it provides government time to consider the more difficult options—particularly those affecting business and capital investment. It provides time for Saskatchewan to monitor how harmonization, for example, works out in Ontario and British Columbia, and time for Saskatchewan to consider the changes it would like to see in any potential harmonization agreement so that the process fits the unique circumstances and preferences of Saskatchewan.

To be sure, there are downsides here as well. Perhaps the most significant is how the implementation schedule will extend past the term of the current government, and perhaps the next one as well. The reforms do run the risk of being picked up enthusiastically by one government, only to lose traction upon the election of another government that is less enthusiastic. Building broad popular support for the changes can help mitigate any such eventuality, even if the prospect never disappears entirely from view.

Conclusion

The last two decades in Canada have witnessed significant tax reform and reduction at both the federal and provincial level. This movement continues today. Tax policy never stands still. The competitive goal posts are always moving. The other side is continually shifting position.

To be competitive, you have to do more than scramble behind the line of scrimmage. You have to huddle, break-free with a plan, and get that ball down the competitive field. Small incremental tax changes are the equivalent of punting. A broad-based, attractive, and highly competitive tax system comes from the bold tax policy move—connecting with the 50-yard pass. This is exactly what these reforms are designed to do.

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CHAPTER 1: INTRODUCTION

Background

In 2009, the Canada West Foundation published and released *Ready for Take-Off: Bold Tax Policy Moves for a More Competitive Western Canada.* In that study, the Foundation urged western Canadian policy-makers to avoid focusing solely on remedial and counter-cyclical policies to deal with the global recession at the expense of pursuing other structural and fundamental policy pursuits (Vander Ploeg 2009). One such pursuit involves building and maintaining a competitive tax environment. *Ready for Take-Off* assessed the tax environment in western Canada, laid out principles for a more competitive tax system, and presented a buffet of bold alternatives to better position the four western provinces.

While the release of *Ready for Take-Off* drew significant attention across the West, interest was particularly strong in Saskatchewan. One of the more important reasons for this interest turns around the dramatic reversal in Saskatchewan's economic fortune over the last five years. Not only has Saskatchewan recorded some of the highest rates of economic growth in Canada, the province has experienced significant in-migration and a strengthened fiscal position fuelled by robust tax revenue growth, surging resource revenue, and falling levels of public debt. All of this flings the door wide open on a range of new opportunities that may have been unaffordable just a few short years ago. Such opportunities include tax *reform* (changing the way taxes work) as well as tax *reduction* (lowering tax rates and the tax burden).

In early 2010, the Canada West Foundation was asked by the Saskatchewan Chamber of Commerce whether the Foundation's research and suggestions in *Ready for Take-Off* could be applied more directly and purposefully to circumstances in Saskatchewan. The Foundation was pleased to accept the invitation—on condition that researchers would work independently and issue their own assessment in a final report. Consequently, a report was developed by the Canada West Foundation at the request of the Saskatchewan Chamber of Commerce and its funding partners—the Institute of Chartered Accountants of Saskatchewan, the Certified Management Accountants of Saskatchewan, the Certified General Accountants of Saskatchewan, and the Association of Saskatchewan Realtors. The result is *A Tax Framework for Saskatchewan's Continuing Prosperity (the "Framework").*

Purpose

The *Framework* aims to help the citizens of Saskatchewan and their public decision-makers grapple with two fundamental questions.

First, how competitive is Saskatchewan's tax policy within the West and within Canada more broadly speaking? In other words, how competitive is Saskatchewan considering current tax levels? How competitive is Saskatchewan given the tax mix? More to the point, is Saskatchewan's current tax system an adequate platform on which to continue efforts at securing Saskatchewan's future prosperity? Or, would a healthy dose of tax reform lever additional gains?

Second, if there are indeed aspects of Saskatchewan's tax system that are wanting, what are the options and alternatives? Specifically, what adjustments need to be made? To what particular taxes? What choices would secure the single largest benefit for Saskatchewan?

Finding a measure of consensus around the answers is not just required, it is urgent. These questions hit directly on the future prospects of Saskatchewan, and the time for careful consideration and thoughtful answers has arrived.

Survey

In pulling the *Framework* together, the Foundation was keen to receive the views of Saskatchewan residents on these important matters. To accomplish this, the Foundation conducted two surveys. The first survey was advertised in newspapers across Saskatchewan, and invited residents to respond to an on-line questionnaire about taxes and tax issues in the province, and to register their preferences for various reforms. The Foundation received 800 completed surveys during the months of June and July 2010. In addition, almost 200 of the survey respondents took time to furnish the Foundation with a written submission providing additional details on their views. Researchers read each submission in its entirety, and tracked common themes that emerged.

Through the second survey, the Foundation engaged its network of economic experts in Saskatchewan, including the *Western Economic Expectations Survey Respondents (WEESR).* This survey posed additional questions on tax issues relevant to Saskatchewan. On a regular basis, the Foundation invites the *WEESR* group to complete a detailed questionnaire regarding economic developments and expectations in Saskatchewan.

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Similar groups exist in British Columbia, Alberta, and Manitoba. Over 120 respondents participated in the second survey.

The surveys provide important contextual perspective on our research, and also help inform the reforms that have emerged. They were not intended, however, to drive the research or the options that we believe government should consider. Participants in the surveys were largely self-selected, and the tool itself has limitations. Nonetheless, the surveys do "crack the window" on public opinion in Saskatchewan with respect to tax policy issues and future directions, pointing out areas of potential consensus and areas that may lack consensus.

Appendices

Attached to the *Framework* is a set of appendices that contain the detailed results of the surveys, and valuable data on taxation in Saskatchewan and other provinces. These data are surrounded by additional commentary that establishes the findings contained in the *Framework*.

CHAPTER 2: CHALLENGE AND OPPORTUNITY

Saskatchewan's Challenge

All provinces in Canada face the continual challenge of securing and maintaining a competitive tax position. This imperative, however, hits particularly hard in Saskatchewan compared to other Canadian provinces. Fundamentally, there are two reasons why Saskatchewan must pay careful attention to its current and future tax policy.

1. Jurisdictional Tax Competitiveness

The first reason speaks to a simple yet unchangeable geopolitical reality. Saskatchewan is neighbour to the two lowest provincial tax jurisdictions in Canada—British Columbia and Alberta. Saskatchewan's proximity to Alberta is of particular importance. Not only does Alberta have some of the lowest taxes of any Canadian province, but the Alberta and Saskatchewan economies are highly reflective of each other. Both provinces, for example, have a significant agricultural base and both generate no small amount of activity from the ongoing development of natural resources. To be sure, the two may not always find themselves going "head-to-head" in attracting capital investment, but there can be little doubt that many times they do. After all, investments in agriculture, food-processing, mining, and oil and gas can be made in either province.

2. The New West Partnership

The second reason concerns the recent signing of the *New West Partnership (NWP)* between British Columbia, Alberta, and Saskatchewan. This has upped the competitive ante. The NWP builds off and replaces the *Trade, Investment, and Labour Mobility Agreement (TILMA)* signed between BC and Alberta in 2006. In signing the NWP, the three western provinces have established Canada's largest interprovincial free trade zone. The agreement includes provisions for joint trade missions, common procurement of goods and services, and the elimination of various regulations and differential standards that have traditionally worked against the free flow of trade, investment, goods, services, and labour among the three provinces.

With trade barriers across the West falling, the relative importance of building and maintaining a competitive tax position is rising. In the past, for example, highly-skilled workers looking to move from one province to another may not have done so because their education credentials would not be easily recognized. With that barrier removed, the decision to relocate has become easier. What may increasingly tip the balance in favour of a move—or against a move—may be a differential in personal taxation. The same dynamic also comes into play when new capital investment is in view.

Jurisdictional competitiveness and the *New West Partnership* affect British Columbia and Alberta just as they do Saskatchewan. But Saskatchewan may have to be more diligent and thoughtful, since the province has historically imposed higher rates of tax than either BC or Alberta. If taxation is indeed to exercise wider influence in attracting and retaining both people and capital investment—a significant arbitrator in economic potential—then Saskatchewan simply cannot afford to ignore those areas of tax policy that can be improved upon, much less those areas where the province may be out of sync with its *New West* partners.

Saskatchewan's Opportunity

The two realities above, and the challenges that they represent, are certainly daunting. But, they do not stand alone. The imperatives behind a more competitive tax position in Saskatchewan also align with a very real and a very significant opportunity. In fact, we believe that Saskatchewan's ability and capacity to secure a more competitive tax system transcend that of any other province. It is this unique alignment of both challenge and opportunity that constitutes the case for considering a range of tax policy adjustments in Saskatchewan today.

Despite the current economic slowdown and the uncertain if not somewhat shaky economic times in which all Canadians find themselves, there remains a strong sense of optimism when it comes to Saskatchewan—that the province may have reached the end of a long sojourn in the economic wilderness and has entered a much brighter future with more promise. Frankly, the 1980s and 1990s were not kind to Saskatchewan. But all that has changed. In considering Saskatchewan's opportunities, there are three that stand out.

1. A Growing Economy and a Growing Tax Base

The first opportunity spins tightly around the impressive economic growth rates that Saskatchewan has posted over the last several years, notwithstanding the recent slowdown in the global economy. In

Saskatchewan, year-over-year increases in nominal provincial gross domestic product (GDP) averaged 7.2% from 2004 to 2010. This annual average growth is the strongest of any province in Canada, and exceeds that of both British Columbia and Alberta. Across the same period, annual growth in BC averaged 4.5%. In Alberta, annual growth averaged 6.4%. While projections for nominal GDP growth for 2010 in Saskatchewan (3.8%) are lower than that of BC (4.4%) and Alberta (7.9%), this does not take away from the impressive results recorded by Saskatchewan over the past several years.

This is no small development. Provincial GDP represents the value of all goods and services produced by the economy during a given year. While GDP can be measured in numerous ways, one of the more common is to aggregate all personal and corporate incomes earned in the province. In this sense, GDP represents a comprehensive measure of the "tax base" upon which all provincial and municipal tax revenues depend. If GDP is growing, so will government revenues even if tax rates—whether personal income, corporate income, or sales tax—remain the same. If expansion of provincial GDP is sufficiently robust, then rates of tax can even be reduced at the same time that tax revenues actually grow.

Recent history in Saskatchewan proves the point. Across the last decade, Saskatchewan implemented a number of significant and sustained reductions to the personal income tax, the education property tax, the provincial sales tax, and various corporate taxes. But those reductions did not "gut" provincial revenues. In fact, the opposite occurred. Corporate tax revenue, for example, grew from $989 million in 2005/06 to $1.1 billion in 2008/09. The 2010/11 provincial budget predicts corporate tax revenues to approach $1.3 billion. This growth in revenue occurred despite a reduction in the general corporate income tax rate of 17% to 12%, a reduction in the small business corporate income tax rate of 5% to 4.5%, and elimination of the general corporate capital tax. The same applies to personal income taxes. The province took steps to reduce personal income taxes in 2000 and again in 2008. During the 2008/09 fiscal year, personal income tax revenues were $1.8 billion. Despite the lower effective tax rates, revenues in 2009/10 were $1.9 billion. They are expected to reach $2.0 billion in 2010/11.

For some, all of this is clear evidence of the stimulative effect of lowering taxes—that lower rates of tax prompt economic growth, and if properly designed and implemented, tax cuts can "pay for themselves." While there is indeed merit to this assertion, agreement is far from unanimous, especially when proponents push the point too far—that the cause and effect relationship is self-evident and that it always applies. Pulling back just a bit, everyone has to admit that efforts to lower tax rates are subject to the law of diminishing returns. At some point, cuts in the tax rate will cross a threshold where tax revenues begin to fall.

The real opportunity for Saskatchewan goes past the traditional "supply-side" argument above. The fact is, tax rates in Saskatchewan have fallen, tax revenues have stayed intact, and provincial expenditures for essential public goods and services have not been compromised as a result. How much of this relates to the stimulative effect of tax cuts? How much relates to reduced "tax revenue leakage" to other jurisdictions with lower tax rates? How much relates to growth in the price and volume of Saskatchewan's essential exports, such as grains and cereals, oil and gas, and uranium and potash? The answers are not entirely clear.

What is clear is that Saskatchewan's tax base has dramatically expanded, and this has provided the province with the fiscal capacity to engage in sustainable tax reform and reduction. It is this emerging reality that constitutes Saskatchewan's great opportunity in the next decade. Going forward, there are more than just a few signs that as the global economy pulls out of its slump, Saskatchewan will continue to see robust rates of economic growth. To the extent that this growth is sustainable, stable, and substantial, the province will find itself in the very envious position of being able to afford further downward adjustments in its total tax take because of a continually expanding tax base. If that can be successfully managed, and if the right choices are made at the right time, then the economic gains already secured can be protected, maintained, leveraged, and even enhanced over the long-term.

Under normal economic conditions, even when "normal" is marked by modest rates of GDP growth, federal and provincial governments see their tax revenues grow each and every year. At budget time, governments announce the decisions they have made with that additional revenue, including how much will be spent, how much will be saved, how much will be used to pay-down debt, and how much will be offered up in a tax change or a tax reduction. These plans are what fill the pages in a budget document. In Saskatchewan, the next decade could well result in a positive and widening gap between the revenues the province receives based on its prevailing tax rates, and the amount of revenue it needs to fulfill its expenditure responsibilities. Given the growing importance of competitive taxation for Saskatchewan, now is the time to get busy thinking about a range of tax policy priorities.

2. A Relatively Strong Fiscal Position

The second opportunity for Saskatchewan centres around a fiscal position that is strong. The province's net financial assets have grown from $8.9 billion in 2007/08 to $10.4 billion in 2009/10, and general government debt has fallen from $8.0 billion in 2003/04 to $4.1 billion today. The 2010 budgets, when viewed on a "cash" basis that adjusts for variances in provincial accounting, interfund transfers, net income of crown corporations, one time revenues and expenditures, and current capital expenditures, show BC with a $5.2 billion deficit and Alberta with a $6.8 billion deficit. Saskatchewan, on the other hand, has a much smaller "cash" shortfall of $812 million (Beauchemin and Shaw 2010). The Alberta deficit is $1,800 per capita, the BC deficit is $1,200 per capita, and the Saskatchewan deficit is $780 per capita. Posting a smaller budget deficit than your neighbours may be small comfort and it can hardly be said to constitute an opportunity. But it is important to also drill a little deeper into the details.

Most of Saskatchewan's negative "cash" position does not accrue from operating expenditures that outstrip operating revenues. Rather, most of the shortfall accrues from one-time capital expenditure and the funding of public pension plans. The General Revenue Fund (GRF) is the province's primary operating fund, and the 2010 budget shows the GRF with a $20 million surplus. Because $194 million was drawn from savings to produce this budgeted surplus, there is a small shortfall in the GRF of about $174 million (Gauthier 2010). As the economy recovers, any shortfall in Saskatchewan's budget will likely disappear as well. Scanning across the numbers, there is a sense that BC and Alberta may not get off that easy. What is more, if Saskatchewan's debt continues to fall across the long-term, this will result in less expenditure on interest. Some of these savings could be used to fund various tax reform and reduction initiatives (Regina and District Chamber of Commerce 2009).

3. Robust Resource Revenue

In recent years, Saskatchewan has seen increases in its resource revenue as well. In fact, across the past ten years, the growth rate of Saskatchewan's resource revenue has surpassed BC and Alberta. From 2001/02 to 2005/06, resource revenue for British Columbia totaled $18.2 billion. In Alberta, it

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totaled $45.1 billion. In Saskatchewan, it amounted to $6.4 billion. When resource revenues are totaled over the 2006/07 to 2010/11 period, British Columbia saw a 4.0% decline ($17.5 billion) and Alberta saw a modest 7.5% increase ($48.5 billion). In Saskatchewan, resource revenues surged past $11.2 billion, a 70% increase.

Over the next ten years, resource revenue for Saskatchewan may exceed what the province has traditionally collected, and this provides additional opportunity for tax reform. Saskatchewan's sizeable natural resource endowments, competitive companies, and the growth prospects for commodities in rapidly expanding markets are all strengths upon which the province can draw. Of course, long-term and sustainable tax policy should not depend on volatile resource revenue. But, this revenue can also be converted into a long-term financial endowment (Gibbins and Vander Ploeg 2005). If properly managed, resource revenue can be saved, invested, and employed to generate a stream of interest and dividend income over the long-term that can help fund tax reform and reduction efforts.

Saskatchewan's opportunity in the next decade centres around the very real prospect of a growing ability to pursue—affordably—a package of tax reforms that can cement many of the province's recent economic gains. Saskatchewan today stands at a fork in the road, and the junction of that fork is clearly marked by a significantly strengthened economy and a relatively strong fiscal position. What is more, there are signs that the next decade may bring even greater fortune. If the province can reform and even reduce its taxes in a comprehensive and strategic fashion, Saskatchewan can win the ability to lever even greater economic gains—emboldening a virtuous circle of future growth and opportunity. As the Canada West Foundation noted in *Ready for Take-Off,* big steps and bold moves on the tax policy front can do much to boost economic competitiveness, enhance productivity, and spur higher rates of economic growth.

At the same time, none of these should be seen as the ultimate goal. Rather, the objective of competitive tax policy is to increase living standards, improve quality of life, and produce sufficient rates of growth over the long-term that manifest themselves in rising real incomes. Not only does this sustain prosperity, it is the necessary precursor to the continued funding of important social objectives and critical public goods and services. *Competitive tax policy is the intersection where economic and social policy meet.*

CHAPTER 3: THE CONTEXT FOR TAX REFORM

Historical Context

In the early 1990s, Canadian federal and provincial governments found themselves face to face with a serious dilemma. After 20 years of continual borrowing on public credit, government debt had risen to unmanageable proportions. This debt growth was compounded by an economic downturn that hit in 1991, which served to explode budget deficits across the country. Peering over the fiscal cliff, governments across the country scaled back spending, increased taxes, and introduced new taxes, all in an effort to staunch the fiscal blood-letting.

By the late 1990s, deficits had been closed and growth of the federal and provincial debt largely stemmed. Successive federal and provincial governments were then faced with another problem—managing intense but conflicting demands around increasing program spending, repaying debt, or ratcheting down taxes. In the end, all three were pursued—including tax reductions.

1. Personal Income Tax

- *Federal Picture:* The statutory rate for the lowest tax bracket fell from 17% to 15%, the 8% high-income surtax was eliminated, and the traditional three rate bracket structure was expanded to four. Existing non-refundable tax credits were enriched, a wide variety of new credits were put in place, and tax brackets and credits were indexed to inflation. Regulations affecting RRSPs were eased, contribution limits were expanded, carry-forward of unused RRSP room was made indefinite, new *Tax Free Savings Accounts (TFSAs)* were introduced, and the lifetime capital gains exemption was increased from $500,000 to $750,000.

- *Provincial Picture:* By 2001, each province had moved their PIT systems from a "tax on tax" (TOT) to a "tax on income" (TONI) system. Under TOT, provincial personal income tax payable was calculated as a percentage of the basic federal tax. Under TONI, each province established their own tax brackets, rates, and non-refundable tax credits. In connection with the change, many provinces also simplified their PIT systems by removing surtaxes and other add-ons that were imposed to reduce deficits. Since the change, a number of provinces

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have reduced their tax rates and added new non-refundable tax credits according to provincial preferences. While most provinces maintain a PIT system with several tax brackets and rates, Alberta opted for a single rate tax of 10% that applies across all taxable income.

2. Corporate Taxation

Corporate taxation is comprised of a basket of taxes that includes the corporate income tax (CIT), corporate capital taxes (CCT), various payroll taxes, and specialized taxes such as the tax on premiums sold by insurance companies. Federal and provincial governments maintain two rates of CIT—a general rate and a small business rate. Some provinces also have lower CIT rates for manufacturing and processing. CCT rates also differ between financial and non-financial corporations, as well as the size of those corporations.

- *Federal Picture:* Successive federal governments, whether Liberal or Conservative, have emphasized the importance of reducing corporate taxes. In 1990, the general corporate income tax (CIT) rate was 28% with an additional 3% surtax, yielding a total rate of 28.84%. In 2000, the surtax was raised to 4%, yielding a 29.12% rate. Further into the decade, CIT rates were reduced and the surtax eliminated. The general corporate rate for 2010 is 18% and the federal government has committed to lowering that to 15% by 2012. In addition, the federal general corporate capital tax (CCT) on non-financial corporations was eliminated in 2006. Successive federal budgets since 2000 have also made adjustments to the capital cost allowance system. This has allowed some corporations to lower their taxable income under CIT. As an objective of tax policy, Ottawa wants a combined federal and provincial general CIT of 25%.

- *Provincial Picture:* While many provinces have followed the federal lead, they have done so under their own timetables and to varying degrees. Since 2000, all provinces have lowered their general rate of corporate income tax except Nova Scotia and PEI. All provinces have reduced the CIT rate on small businesses, which have tended to enjoy much larger reductions than corporations taxed under the general rate. By 2014, every province will have eliminated their general corporate capital tax (CCT) on non-financial corporations, and three provinces have eliminated—or have plans to eliminate—their financial CCT as well. Many provinces have also introduced a range of specialized tax credits and incentives that have served to lower the amount

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of provincial corporate taxes payable for companies operating in specially targeted sectors. Four provinces levy payroll taxes, which have been reduced in Manitoba, remained constant in Ontario, but increased in both Quebec and Newfoundland and Labrador.

3. Premiums to Social Insurance and Social Programs

- *Federal Picture:* Canadians pay two types of premiums to fund federal social insurance programs, including Employment Insurance (EI) and the Canada Pension Plan (CPP). EI premiums have been steadily and gradually falling for years. In 1994, EI premiums paid by employees peaked at $3.07 per each $100 of insurable earnings, while the rate for employers hit $4.30. In 2010, the premiums were $1.73 per $100 of insurable earnings for employees and $2.42 for employers. However, worries about the long-term viability of the Canada Pension Plan resulted in steep increases to CPP premiums. The 1990 rate for CPP premiums was 2.1% of pensionable earnings, and that rose to 4.95% in 2003, where it currently remains. The province of Quebec manages its own Quebec Pension Plan (QPP), which has seen identical increases. EI premiums may soon be on the rise once again, however, to cover a growing shortfall in the EI Account.

- *Provincial Picture:* A number of provinces have charged various types of health care premiums as a way to fund provincial health care costs, including British Columbia, Alberta, and Ontario. Ontario eliminated the premium in the early 1990s, but recently brought it back into play. While Ontario's premium is income-tested and collected through the provincial personal income tax system, British Columbia's resembles more of a poll-tax, with the same premium charged regardless of income. There are, however, reductions of the premium for those with low-incomes. Alberta eliminated its health care premium in 2009, resulting in a $1 billion savings to taxpayers.

4. Sales Taxes

Sales taxes come in two forms, a general or broad-based sales tax such as a retail sales tax (RST) or a value-added sales tax (VAT). The second group of sales taxes are selective sales taxes or excise taxes. Both types are levied at the federal and provincial levels.

- *Federal Picture:* In 1990, the federal government implemented the federal Goods and Services Tax (GST). This broad-based general sales tax was brought in to help close the fiscal deficit, but also replace the Federal Manufacturing Sales Tax (FMST) with a true value-added tax (VAT). The intent was to raise additional revenue, but also to exempt business inputs from tax, and thereby make goods and services headed for export abroad more competitive on international markets. The tax was established in 1990 at a rate of 7%. In 2007, the rate was reduced to 6% and in 2008 it was reduced to 5%.

- *Provincial Picture:* First, provinces with a provincial sales tax (PST) increased the rate in the early 1990s to help close budget deficits. With that accomplished, most provincial PST rates were subsequently reduced. Second, a number of provinces have elected to harmonize or "piggy-back" their provincial sales taxes onto the federal GST. Provinces that have engaged in this "harmonization" have largely adopted the GST tax base and its value-added structure under which tax is charged only to the final purchaser and business inputs are exempted. All provinces with the exception of Saskatchewan, Manitoba, and PEI now utilize the Harmonized Sales Tax (HST). At the same time, the HST matter in BC remains in the air. There will be a referendum on the matter in September 2011. Third, while the basket of selective sales taxes (e.g., fuel taxes, tobacco taxes, hotel taxes, tourism taxes) saw significant increases in the early 1990s as a way to combat budget deficits, rates have since remained generally stable. Most provinces continue to levy the same tax on fuel in 2010 as they did 10 or 15 years ago, for example. To combat tobacco smuggling in Ontario, Quebec, and Atlantic Canada, provincial tobacco taxes there were significantly scaled back in the mid-1990s, but across the West, they increased sharply. Since the earlier cuts of the 1990s, tobacco taxes have been rising in central and Atlantic Canada as well.

5. Property Taxes

The personal income tax, the basket of corporate taxes, contributions to social insurance plans, and various sales taxes are the primary taxes typically considered when assessing tax competitiveness. But when it comes to the matter of provincial tax policy, the landscape is not complete until property taxes—both municipal purpose and education purpose—have been added.

- *Federal Picture:* The federal government collects no property tax. This is not to say that the federal government has no interest, however. Recognizing the limitations of the municipal property tax as a funding tool for Canada's large urban centres, and the need for significant investments in municipal infrastructure across the country, the federal government decided to begin sharing a portion of the federal fuel tax with municipalities to supplement property taxes and help fund important infrastructure projects. Such federal tax revenue sharing represents a unique departure from the traditional federal grant.

- *Provincial Picture:* Developments with the property tax are difficult to gauge as the tax is administered differently in each province, municipal tax rates are set locally, and each municipality is responsible for collecting the tax. There is no central collection authority, and this makes it difficult to secure comparable information. That said, there are two developments worth noting. First, some provinces have moved to restructure and regionalize school boards in the province. As part of that restructuring, the provinces assumed additional control over the education portion of the property tax. In Alberta and Saskatchewan, for example, education property tax rates are now set province-wide, with the amounts remitted to school boards based on a funding formula. Provinces that include education property taxes within the provincial Public Accounts are British Columbia, Alberta, Ontario, New Brunswick, and PEI. Second, the policy community across Canada became very engaged in issues of municipal finance starting in 2000. As a result, the property tax itself has come under increased scrutiny, particularly its ability to fund large and growing urban centres and their significant infrastructure needs. In addition, attention has centered on a range of inequities inherent in the property tax, and criticisms have been leveled against the way the tax is currently being administered.

The historical federal and provincial trend has been a falling tax burden across Canada. In 1998, the total tax take of all governments in Canada peaked at 37.2% of gross domestic product (GDP). For much of the 1990s, Canada's "tax-to-GDP" ratio was higher than the OECD average. By 2007, however, Canada's ratio was lower than the OECD average, having fallen to 33.9%. At first glance, that might not appear to represent much improvement. But a 3.3 percentage point difference on a GDP totaling $1.6 trillion is not at all insignificant—it equates to $53 billion for 2010 alone. To put that amount in perspective, Ottawa collects through the GST about $25 billion annually. Put yet another way, Canadians pay about $55 billion in property taxes each year. *Are Canadians paying less tax in 2010? Absolutely.*

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Saskatchewan's Experience

The larger federal and provincial picture is clearly reflected in Saskatchewan, which has seen significant tax reform and reduction as well. Numerous changes have been made to the personal income tax, various corporate taxes, the provincial sales tax, and the education property tax.

1. Personal Income Tax

In 1999, the Saskatchewan government struck the *Personal Income Tax Review Committee (PITRC)* to recommend changes to the personal income tax. The Committee was to focus attention on making the system more fair, competitive, simple, and responsive to family needs (PITRC 1999). Acting on the Committee's recommendations, the government in 2001 switched from a TOT to a TONI system with an initial three rate structure of 11.5%, 13.5%, and 16%. The flat tax embedded in the prior TOT system was eliminated, along with the high income surtax, the deficit reduction surtax, and the low income tax reduction calculation. By 2003, the proposed changes had been fully phased-in, and the current rates of 11%, 13%, and 15% came into effect.

As part of the 2001 change, the government also put in place a significant non-refundable tax deduction for families with children, amounting to $3,000 per child. This remains a very unique aspect of Saskatchewan's personal income tax system. Calculated at the 11% tax rate, the deduction lowered the personal income taxes payable for families by $330 for each eligible child. The basic personal exemption and the spousal credit were both set at $8,500, and a senior's tax credit of $1,500 was introduced. The credits and various income brackets were also indexed to inflation. The overall effect of the change was to reduce personal income taxes by $440 million.

In 2008, the province announced further reductions in the provincial personal income tax, including a $4,000 increase to the Basic and Spousal Amounts, an increase in the Child Amount, and replacing the refundable Sales Tax Credit with an enhanced Low Income Tax Credit. The entire package resulted in every taxpayer over 18 years of age seeing their taxes reduced, and 80,000 taxpayers being removed from the tax rolls. The savings to taxpayers were estimated at $322 million.

At the end of the 1999/00 fiscal year—the year just before any changes in the system—provincial collections of personal income tax were 4.70% of provincial GDP. Using data in the 2010/11 provincial budget, personal

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income tax revenue is estimated at 3.41% of GDP today. This drop in the tax-to-GDP ratio amounts to $744 million in less personal income tax.

2. Corporate Taxation

In 2005, the province struck another tax committee, the *Business Tax Review Committee (BTRC)*. This body was mandated with proposing changes to Saskatchewan's basket of corporate taxes. The Committee focused on the corporate income tax (CIT), the general and financial corporate capital tax (CCT), and the impacts of the provincial sales tax (PST) on business investment. The Committee was to recommend changes that would encourage investment in the province and ensure that business contributed a fair share to the costs of government. Any changes suggested were to be administratively efficient, simple, transparent, stable, and fiscally sustainable over the long-term (BTRC 2005).

In the past, the government's corporate tax strategy was to focus its limited fiscal resources by creating targeted incentives for key sectors. Such tax incentives included an Investment Tax Credit (ITC) to exempt the manufacturing and processing (M&P) sector from paying provincial sales tax on inputs, a reduced CIT rate for the M&P sector (10% for M&P versus 17% for other corporations), and various other incentives. The cost to the provincial treasury of these tax preferences was estimated at $525 million in 2006.

The Committee, on the other hand, heard that a broad-based system with fewer preferences and incentives, but lower rates of tax, was preferable. Therefore, it proposed reductions in the corporate income tax, eliminating the corporate capital tax on non-financial corporations, rolling the special corporate capital tax on resource corporations into the larger royalty system, and harmonizing the provincial sales tax with the federal GST.

The province accepted the bulk of the recommendations, with the exception of sales tax harmonization. Implementation of the changes began in 2006. The general CIT rate of 17%—the highest among the provinces—was lowered to 13% for 2007, and lowered again to 12% in 2009, where it remains today. The small business CIT rate was lowered from 5% in 2006 to 4.5% in 2007, where it remains. The threshold for the small business CIT was also raised from $300,000 to $500,000. The general CCT rate in 2006 was 0.6%—without question the highest among the provinces. In fact, Saskatchewan generally collected more revenue from its corporate capital taxes than its corporate income tax, a situation that distinguished

Saskatchewan from all other provinces. The government proceeded to eliminate the general CCT, which was fully phased-out for 2010.

This package of reforms was estimated to have reduced corporate taxes in Saskatchewan by $240 million by the end of the 2009/10 fiscal year. Corporate taxes collected as a percentage of GDP were 2.51% in 2006/07. For 2010/11, corporate tax revenues are estimated at 2.17% of GDP.

3. Provincial Sales Tax

In 1993, to help close the province's budget deficit, the government increased the provincial sales tax rate from 7% to 9%. At the end of the 1992/93 fiscal year, PST revenues were $540 million. By the end of the 1994/95 fiscal year, revenues had jumped to $730 million. When the budget deficit was eventually eliminated, the province began reducing the PST rate. In 1998, the rate of PST fell back to 7%.

In 1999, the *Personal Income Tax Review Committee (PITRC)* suggested that the province also implement structural reforms to the provincial sales tax in conjunction with the Committee's personal income tax reforms. The Committee believed that the PST, in exempting too many items, was a restricted source of tax revenue and that the province was too dependent on personal income tax as opposed to sales tax. In 1980, 31% of the province's tax total (excluding any property tax) came from the PST and 40% from PIT. In 1999, PST was contributing only 22% while PIT was contributing 46%. To achieve better balance, the Committee recommended that the provincial sales tax base be expanded to include a much wider range of goods and services, and that the rate be subsequently lowered from 7% to 5%.

The recommendation would have increased provincial sales tax revenue by $180 million. While the increase would be more than offset by the $440 million reduction in personal income tax, the end result would be a better balance in the province's overall tax mix. Reflecting the Committee's recommendations, the government undertook an expansion of the sales tax base, but left the tax rates intact. To manage the impact on those with low-incomes, a $32 million refundable Sales Tax Credit was put in place. (This was replaced by a new Low Income Tax Credit in 2008). In the spring of 2004, the rate of PST was briefly increased to 7%. In the fall of 2007, the rate was reduced to 5%, were it remains today.

The *Business Tax Review Committee (BTRC)* revisited the PST in 2005, and urged the province to harmonize it with the federal GST. The Committee

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suggested that negotiations with the federal government commence with the intent of implementing a broad-based HST in Saskatchewan at a rate of 7%. The government did not accept this recommendation, but was sensitive to the Committee's goal of attempting to reduce the impact of provincial sales tax on corporate investment and business inputs.

Aside from the general provincial sales tax, Saskatchewan also imposes a number of selective sales taxes (or excise taxes) on specific items. As with any province, the most important of these are the taxes on fuel and tobacco. In the 2010/11 budget, Saskatchewan anticipates collecting $453 million in fuel tax revenue and another $235 million for tobacco. While these two are the most significant selective sales taxes for Saskatchewan, the province anticipates collecting $166 million in "other" tax revenue as well. The fuel tax on both gasoline and diesel was increased from 10¢ per litre to 15¢ in 1993 as a deficit fighting measure. Those rates are currently still in play. Sales tax on tobacco has increased dramatically, from around $13 per carton of cigarettes in 1990 to over $40 today.

4. Property Taxes

With respect to municipal and education property taxes, a number of developments are worth noting, particularly with respect to the education property tax, which funds a good portion of the K-12 system. The *Boughen Commission (2003)* concluded that property taxation was not an entirely equitable or adequate method of funding, and recommended that the funding from property taxes be reduced and the funding from other provincial tax sources be increased. The Commission suggested that provincial tax sources for K-12 increase from 40% in 2003 to 80% by 2008, and that the education property tax be reduced "at source" as opposed to credits or rebates. In 2005, the province decided, however, to introduce rebates (Boughen 2003).

The *Reiter Report (2009)* revisited the education property tax, and recommended a number of structural changes, some of which the government announced in 2009 (Reiter 2009). First, Saskatchewan would begin following the practice of many other provinces by setting province-wide mill rates for the education property tax. Second, the amount of education property tax was reduced by $103 million for 2009/10, with the government committing to a further reduction of $53 million for 2010/11. The government also announced plans to "cap" the contribution of the education property tax by having K-12 education funded 65% by the province and 35% from the property tax.

Trends in municipal property taxation are harder to establish since local governments set their own mill rates. Broadly speaking, however, the pattern has been increased competition for property tax room driven by rising education property taxes, and additional pressure on the property tax base fueled by rapid growth in centres like Saskatoon and sizeable municipal infrastructure needs. Reductions in provincial revenue-sharing occurred in the 1990s, but a move by the province to share a portion of the provincial sales tax with municipalities has stabilized grants. In 2009, the province committed to increase the revenue-sharing to 1.0 percentage points, but that was postponed due to current budget pressures.

In 2010/11, total property taxes collected in Saskatchewan are estimated at $1.6 billion, of which 51% will be for education purpose and 49% for municipal purpose. Total property taxes collected will represent 2.83% of provincial GDP, higher than either the provincial sales tax or the basket of corporate taxes. As such, future developments with property taxes are not at all insignificant to Saskatchewan's competitive tax position.

In the 1993/94 fiscal year, all taxes collected in Saskatchewan peaked at 15.10% of provincial GDP. In fiscal 2010/11, total taxes—including provincial taxes, municipal property taxes, and education property taxes—are estimated at 11.95% of GDP. For Saskatchewan, this 3.15 percentage point difference, on an estimated GDP of $57.7 billion, represents a tax savings of $1.8 billion. *Are taxpayers in Saskatchewan paying less tax in 2010? Absolutely.*

Current Context

Reform of federal and provincial tax policy, and the scaling back of taxes in Canada, has continued despite the recent economic downturn and the return of budgets deficits. A look at the 2010 federal and provincial budgets is enough to tell the story. The federal government remains committed to lowering the corporate income tax rate from its current 18% to 15% by 2012. The province of British Columbia is reducing its financial corporate capital tax to 1% from its previous 3%, and plans to eliminate the tax in 2011. BC is also continuing the drive to harmonize its provincial sales tax with the GST. Ontario has harmonized as well, and also announced a reduction in its first rate of personal income tax from 6.05% to 5.05% as a partial offset. The 2010 New Brunswick budget announced a bold tax move, with the province reducing all personal income tax rates for 2010. The top rate alone will move from 17.4% to 14.3%.

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To be sure, other provinces have made moves in the opposite direction. Quebec is planning to increase its partially harmonized sales tax from the current 7.5% to 9.5% by 2012. Nova Scotia is following a similar route, and has announced plans to boost the provincial share of the HST from 8% to 10%. Even provinces reducing one tax are shifting some of the burden to other taxes. New Brunswick, for example, is lowering personal income tax rates but boosting its fuel tax from 15.7¢ per litre to 17.8¢ per litre.

Across Canada, efforts at tax reform and tax reduction continue. Given the current economic climate and the reemergence of budget deficits, this is more than a little surprising. While there are numerous reasons that explain the continuing trend, two stand out.

First, today's budget deficits are quite unlike those recorded in the early 1990s, and this has given some governments the confidence to continue with efforts at building a more competitive tax system. Not only is the relative size of today's deficits—measured as a percentage of GDP—considerably smaller, but today's deficits are not being registered in the shadow of staggering amounts of debt. Across Canada, government debt-to-GDP ratios are smaller today as well. In addition, today's deficits are largely *cyclical* in nature, driven by depressed tax revenue, one-time stimulus spending, and one-off capital expenditure. All of this is completely unlike the *structural* deficits of the 1990s, when government was borrowing not to invest in public infrastructure, but to meet the payroll. The pressure for pursuing a competitive tax policy and tax reform has not been sidetracked in light of current budgetary stresses.

Second, the focus of many recent tax moves encompasses a relatively new theme. This theme is that tax levels do matter when it comes to economic competitiveness, but just as important are the types of taxes being used and how those taxes are structured and administered. In other words, while the *level* of taxation is important, so is the *tax mix* (Kesselman 2000). Who you tax, what you tax, and how you tax it all hit on the prospects for long-term economic growth and sustained prosperity—perhaps more so—than how much you tax. In short, efforts on the tax front in years past tilted heavily toward *tax reduction* with limited emphasis on *tax reform.* Today's efforts tilt more heavily to *tax reform* with less attention on *tax reduction.*

One way this is being pursued is to increase reliance on less economically-damaging consumption taxes, particularly value-added (VAT) sales taxes, as opposed to personal and corporate income taxes (Vander Ploeg 2009; OECD 2008 and 2006; Dungan, Mintz, and Poschmann 2008; Kesselman

2004). For example, both Ontario and New Brunswick are reducing their personal income tax rates and expanding the usage of consumption taxes. Traditionally, the tax of choice to increase revenue was the personal or corporate income tax. But today, both Quebec and Nova Scotia are opting to increase reliance on their broad-based sales taxes. In British Columbia, decision-makers have decided to keep both personal and corporate income taxes closely competitive with Alberta, and focus attention on a harmonized sales tax that will employ a broader base and raise more consumption tax revenue relative to income tax revenue.

To be sure, not all recent moves have gone in that direction, and the federal decision to reduce the GST from 7% to 5% is one such example. But in taking that step, the federal government was also inviting provinces to step into that additional 2.0 percentage points of sales tax room that the reduction provided. Given today's fiscal crunch, many are doing just that, and also building a more competitive tax system at the same time.

Clearly, tax policy is in a constant state of flux—the competitive goal posts are always moving. There is no time to rest on laurels, and provinces that desire a highly competitive tax environment need to continually monitor developments, and adjust their tax policies in response to those developments. Being competitive yesterday is no guarantee for today, and being competitive today is certainly no guarantee for tomorrow. What is more, this reality is just as relevant during "good" economic times as it is during "bad" economic times.

Qualifying the Opportunity

Without taking away from either the imperatives or the opportunities for a more competitive tax policy in Saskatchewan, it is important to keep a balanced perspective on the matter. Despite assertions to the contrary, tax policy is neither the "be all" nor the "end all" of economic comparative advantage. First, taxation is just one side of a much larger value proposition. Taxes fund public goods and services that lower the costs of business and also boost the returns to private investment. The role played by public infrastructure is but one example. Comparing provincial tax levels is somewhat risky since different provinces also provide a different package of public services. Taxes may well be higher in one province compared to another, but the level of public services provided might be higher as well.

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Second, low taxes are no silver bullet when it comes to economic competitiveness, particularly if the trade-off is poor public services, poor economic infrastructure, poor educational opportunities and institutions, and a lack of creative, productive, and skilled labour. There are more than a few examples of highly competitive economies with relatively high taxes, and uncompetitive economies with relatively low taxes. Economic competitiveness is a function of many factors, including access to resources, proximity to markets, communications and transportation infrastructure, educational opportunities, availability of skilled labour, abundant and varied career opportunities, labour market efficiency and mobility, business sophistication, macroeconomic stability, cost of living, and technological readiness. The list could go on. Tax levels are an important competitive determiner, but unless they are consistently high or otherwise completely out of line, they may not be the most important determiner. In short, low taxes alone are no guarantee for the economic future that Saskatchewan is seeking. They can certainly provide a boost and draw significant attention, but they cannot alone carry all the economic freight. In fact, stressing low taxes to the exclusion of everything else is likely to be counterproductive.

Third, competitive taxation is as much about tax structure and tax mix as it is about tax levels (Kesselman 2000). In pursuing any renewal of tax policy in Saskatchewan, the debate should focus on opportunities for *tax reform* as well as *tax reduction.* Tax reform speaks to beneficial changes in the mix of taxes used, the administration of those taxes, and how they are applied. Tax reform does not equate to tax reduction, which is an attempt to lower the overall tax burden by cutting tax rates or eliminating specific taxes. In the past, too much emphasis has been placed on the level of taxation and not nearly enough on the types of taxes in play, and whether those taxes are being administered and employed efficiently, effectively, and equitably (D'Aquino and Stewart-Patterson 2001).

Finally, the full range of economic and competitive gains from any program of tax reform and reduction will likely accrue only across the long-term. It takes time for the many actors in an economy to adjust their behaviour and for the economy to reap the benefits. Tax reform can also imply a set of transitional issues that have to be managed.

The discussion above leads to two important conclusions. First, tax levels in Saskatchewan do not necessarily have to be lower than the province's competitors. Given the size of Alberta's natural resource base and the substantial resource revenue that it collects, no province—Saskatchewan included—is likely to "beat" Alberta on tax levels. But Saskatchewan can work to narrow the gap, and Saskatchewan can work to employ the best taxes in the most efficient way possible.

Second, tax policy can be said to operate at the margin. When commodity prices are up, export volumes are high, and the economy is going full throttle, incremental tax improvements may provide little extra boost. Likewise, when commodity prices are depressed, export volumes are down, and the economy is in the tank, adjustments in tax policy may offer little relief. But tax policy is not irrelevant either, especially at the provincial level. Unlike the federal government, which maintains control over a wide range of economic levers such as monetary policy and interest rates, tax policy, tax structure, and the tax mix are still the most important economic levers that a province can directly employ. Provincial governments cannot influence the market price of grain or oil, but they can certainly pursue the principles of sound tax policy. And this, perhaps more than anything else, is why tax reform and reduction remains a consistent theme in current Canadian policy debates.

In working through this theme, it is important not to lose sight of what a competitive tax policy can achieve and what it cannot achieve. The theme is best joined to a range of other economic policies, whether that be balancing the budget over the business cycle or pursuing expenditures that are efficient and well-directed, especially in education and infrastructure. Those concerns, however, remain outside the scope of this particular effort.

CHAPTER 4: COMPETITIVE ANALYSIS

The Tax Level: Saskatchewan's Total Tax Burden

The imperatives of a competitive tax policy and the opportunities to strategically pursue such a policy are fundamental in making the case for change. Of equal importance is a systematic comparison of where Saskatchewan fits relative to its provincial competitors, particularly in western Canada. A first step is to examine the total tax burden in Saskatchewan. *(See Appendix A for additional detail and data.)*

1. Taxes as a Percent of GDP

The provincial gross domestic product (GDP) can be viewed as the comprehensive "tax base" for any province. Setting total taxes collected against GDP essentially yields an "effective tax rate" in broad terms. The higher the tax-to-GDP ratio, the heavier the relative tax burden.

- Saskatchewan—like British Columbia and Alberta—collects a significant amount of resource revenue. This dramatically lowers the traditional tax burden. This western trio is also joined by Newfoundland and Labrador, which recently began collecting substantial amounts of off-shore resource revenue. British Columbia, Alberta, Saskatchewan, and Newfoundland and Labrador have the lowest tax-to-GDP ratios in Canada.

- This reality means that Saskatchewan possesses an inherent comparative tax advantage over most other provinces, including Manitoba, Ontario, Quebec, and most of Atlantic Canada. As such, Saskatchewan's primary competitive concern lies westward and not eastward.

- Within western Canada, Alberta has the lowest tax-to-GDP ratio at 7.82%. British Columbia comes in second at 11.75%. Saskatchewan runs a very close third at 11.95%. With Manitoba's tax-to-GDP ratio at 13.05% and Ontario's at 14.96%, it is clear that Saskatchewan's primary competitors are BC and Alberta.

- What is more, the gap between British Columbia and Saskatchewan is very narrow. With the right package of tax reforms, Saskatchewan could vault to second place. When it comes to competitive tax levels,

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Saskatchewan currently holds the bronze medal. There is opportunity to grab silver.

2. An Estimate of the Total Tax Bill

British Columbia's provincial budgets present an interesting set of data estimating the actual amounts of federal and provincial tax paid by various taxpayers, at specific income levels, within the different provinces. The 2010/11 data confirm the findings above.

- When provincial personal income taxes, health care premiums, provincial sales taxes, fuel taxes, municipal property taxes, and education property taxes are summed, Saskatchewan taxpayers have the third lowest total tax bill in Canada. Again, British Columbia and Alberta have the lowest tax bill.
- However, much also depends on the particular taxpayer in view. When it comes to a single taxpayer earning $25,000 or $75,000, and a dual income family with two children earning $100,000, Saskatchewan has the third lowest taxes. When it comes to a dual income family earning $50,000, Saskatchewan has the second lowest taxes.
- Usually, it is either New Brunswick or Ontario that follows up behind Saskatchewan, with Manitoba running far behind. Because of New Brunswick's distance, any potential eastward competition is bound to come from Ontario. When it comes to tax levels, Saskatchewan's competition is British Columbia and Alberta first, followed by Ontario.

The Tax Mix: Saskatchewan's Tax Profile

The level of taxation is only one issue. Equally important is the tax profile—the mix of taxes that are in play. As economic and tax specialists continually point out, some taxes simply do less economic damage than other taxes. In general, broad-based value-added sales taxes (VAT) and user pay sales taxes are more "economically-friendly." Income taxes, particularly on business income and on personal and corporate savings and investment, are less "economically-friendly." *(See Appendix B for additional detail and data.)*

1. Individual Taxes as a Percent of Total Tax Revenue

- Saskatchewan has the lowest reliance on personal income tax revenue of any province in Canada. Personal income tax revenue is 29% of Saskatchewan's total tax take. Both British Columbia and Alberta are more reliant on personal income taxes.

- Alberta aside, Saskatchewan also has the lowest reliance on provincial sales tax revenue of any province in Canada. Provincial sales tax revenue is 17% of Saskatchewan's total tax take. This is much lower than either British Columbia, Manitoba, or Ontario.

- Saskatchewan is much more reliant on corporate tax revenue than most provinces. Only in Quebec does corporate tax revenue constitute a higher percentage of total revenue. Corporate tax revenue is 18% of Saskatchewan's total tax take. This compares to 5% in British Columbia and 12% in Manitoba. While Alberta collects 17% of its tax revenue from corporate taxes—just a little lower than Saskatchewan—Alberta's corporate tax base is also much larger. It is difficult, then, to avoid the nagging suspicion that corporate taxation in Saskatchewan is uncompetitive.

- Municipal property taxes in Saskatchewan comprise 12% of all taxes collected across the province. This puts Saskatchewan in the middle of the pack. Saskatchewan is slightly more dependent here than Manitoba, but well under British Columbia, Alberta, and Ontario.

- On the other hand, Saskatchewan is the most reliant of all provinces on education property taxes, which constitute 12% of all tax revenue in the province. This percentage is significantly higher than British Columbia, Alberta, and Ontario.

2. Specific Taxes as a Percent of GDP

Tax-to-GDP ratios can also be used to confirm the above findings, and draw Saskatchewan's unique tax profile into sharper relief.

- Personal income taxes in Saskatchewan constitute 3.41% of provincial GDP. This is slightly higher than Alberta, but well below that of British Columbia, Manitoba, and Ontario. Using this tax-to-GDP ratio, Saskatchewan is the second least reliant on personal income tax next to Alberta.

- ❑ Provincial sales taxes in Saskatchewan constitute 2.06% of provincial GDP. This is well below that of British Columbia, Manitoba, and Ontario. On this measure, Saskatchewan again emerges as the province with the least reliance on provincial sales tax revenue—Alberta excepted.

- ❑ Corporate tax revenue in Saskatchewan is 2.17% of provincial GDP. This is the highest corporate tax-to-GDP ratio in the West, and the second highest in Canada. Again, only Quebec is more dependent on corporate taxes than Saskatchewan. Corporate tax revenue constitutes 0.64% of GDP in BC, 1.33% in Alberta, and 1.57% in Manitoba. Measured against GDP, corporate tax revenue in Saskatchewan is twice that of Alberta and three times that of BC. From a competitive viewpoint, that is more than a little troubling.

- ❑ Municipal property taxes in Saskatchewan are 1.40% of GDP, which is lower than that of BC, Alberta, and Ontario, and only slightly higher than that of Manitoba.

- ❑ Education property taxes in Saskatchewan are 1.43% of GDP, which is twice that of Alberta and one and a half times that of BC.

Saskatchewan collects significant resource revenue, and this endows the province with a competitive edge by allowing for a lower tax burden. Saskatchewan has the third lowest taxes in Canada, and some forward momentum on a bold tax reform agenda could propel Saskatchewan to second place. When it comes to the overall tax level, Saskatchewan is competitive within Canada, although less so when the comparison is limited to the West. Of more concern than the *tax level* is Saskatchewan's *tax mix.* There can be no doubt that the province rests on a unique revenue base, not only within the West, but also when compared to other Canadian provinces. Sketched in broad terms, Saskatchewan has the lowest reliance of any province on personal income tax and provincial sales tax, and this is offset with heavy dependence on corporate tax revenue and the education property tax. This "tax mix" may be undermining Saskatchewan's competitive position.

The Tax System: Saskatchewan's Taxes

1. Personal Income Tax

The personal income tax is the single largest tax source for each and every province in Canada. In terms of assessing competitiveness, it is always the starting point. *(See Appendix C for additional detail and data.)*

- *Statutory rates* of personal income tax in Saskatchewan are among the highest of all the provinces, exceeding those of BC, Alberta, Manitoba and Ontario. However, these high rates are offset by some of the highest income thresholds at which the rates apply, and a basket of generous and valuable tax credits that work to lower the amount of tax considerably. In other words, Saskatchewan's *statutory rates* are high, but the amount of tax paid relative to income—*the average tax rate or ATR*—is quite reasonable.

- One of the competitive difficulties with Saskatchewan's personal income tax has to be the high statutory tax rates. Like it or not, the statutory or posted tax rate is the one metric upon which people tend to focus, and it leaves the perception—wrong as it is—that Saskatchewan's personal income tax is just not competitive. It is difficult to see, and even more difficult to explain, that Saskatchewan's competitiveness lies in high taxable income thresholds and valuable tax credits. All of that is just too complex for people. In some ways, Saskatchewan's personal income tax system suffers from a serious "public relations" problem.

- For those with low and moderate incomes, a particular concern with the personal income tax centres around the amount of income exempted from tax, or the income level at which tax first becomes payable. Saskatchewan tends to exempt a higher level of income from tax than the typical province, and this is a real source of strength within Saskatchewan's personal income tax system. The degree to which this applies, however, does depend on the circumstance of individual taxpayers. When a single taxpayer is in view, the amount of income exempted from tax is average—Saskatchewan sits in the middle of the larger provincial pack. When it comes to exempting income for seniors, Saskatchewan moves to 3rd place behind BC and Alberta. When it comes to families with children, Saskatchewan leaps into 1st place. No other province exempts from tax a higher level of

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income for families. But again, how well known is this unique feature of Saskatchewan's personal income tax system?

- For those with higher levels of income, a particular concern is the *top marginal tax rate (MTR)*, which is the rate of tax on the last dollar of income at the highest possible tax rate. Saskatchewan has the 5th highest marginal tax rate among the provinces. At 15%, it is much higher than Alberta's 10%. While that spread is significant, Saskatchewan's MTR is only slightly higher than British Columbia, Manitoba, New Brunswick, and Newfoundland and Labrador. All other provinces have a much higher MTR than Saskatchewan. With just a little effort on this front, Saskatchewan could easily achieve the second lowest MTR in Canada. The overall impact would be minimal, but it would certainly provide better optics.

- For all taxpayers, the *average tax rate (ATR)* is another concern. The ATR represents the percentage of income that is actually paid out in tax. Averaged across a wide range of income levels, Saskatchewan's performance here depends on what taxpayer is in view. Saskatchewan scores in the middle of the pack when it comes to single and senior taxpayers, but moves up to 3rd spot for a dual income family and 2nd spot for a single income family. British Columbia and Alberta continually battle for 1st and 2nd place. Sometimes BC comes out on top, and sometimes Alberta does—depending on the income level and family type. However, when the effect of British Columbia's health care premiums are added in, Alberta emerges 1st across most, if not all, taxpayer types. The health care premiums in BC also improve Saskatchewan's relative positioning.

- Differentials in statutory tax rates show that Alberta has the least progressive system in Canada, and Saskatchewan has the second least progressive. BC has the most progressive system of any province, and Manitoba is in the middle. There is wide diversity across the West when it comes to progressivity. Overly progressive systems—especially when combined with high marginal tax rates—are arguably less competitive. Saskatchewan tends to straddle the issue. The province has a higher marginal tax rate than BC, Alberta, and Ontario, but a generally less progressive system as well.

In short, Saskatchewan could be said to have a broadly competitive personal income tax within Canada, although it is not the most competitive. When it comes to tax levels, a fair assessment for Saskatchewan is that it shares—with Ontario—the third most competitive system. But when

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considering how the personal income tax system works, Saskatchewan likely pushes Ontario back into fourth spot. Ontario's PIT system is very complex, and includes two high income surtaxes, a separate health care premium calculation, and a low income tax reduction calculation. Alberta's system takes first place due to its simplicity, low marginal tax rate, and consistently solid performance with respect to the average tax rate.

2. Corporate Taxation

Assessments of corporate income taxation are easier than personal income tax as there are less variables to consider. However, corporate taxation also comprises several different taxes. In assessing competitiveness, one needs to examine the general, small business, and manufacturing and processing (M&P) corporate income tax (CIT), general and financial corporate capital taxes (CCT), Insurance Corporations Tax (ICT), and payroll taxes. *(See Appendix D for additional detail and data.)*

- With a general corporate income tax (CIT) rate of 12%, Saskatchewan is competitive with Manitoba but not with British Columbia or Alberta. The competitive gap will also widen as BC lowers its rate from 10.5% to 10% and Manitoba pursues plans to lower its rate from 12% to 11%. Ontario has also announced plans to lower its rate from 14% to 10% by 2014. With the general CIT, Saskatchewan's position is relatively uncompetitive, and without change, it will become even more uncompetitive.

- Saskatchewan has the highest small business CIT rate in the West at 4.5%, and is not competitive with British Columbia, Alberta, or Manitoba. Again, the competitive gap will widen as British Columbia and Manitoba seek to eliminate CIT for all small businesses. Saskatchewan's current competitive edge over Ontario will also disappear as Ontario plans to meet Saskatchewan's 4.5% rate by 2011. However, this is likely less important than the differential in the general corporate income tax rate.

- Saskatchewan has a Manufacturing and Processing (M&P) CIT rate of 10%. This is the same as Alberta. This rate is competitive within western Canada—both British Columbia and Manitoba are higher—and it is competitive with Ontario. However, Saskatchewan's competitive edge over the latter province will soon begin to slip. Ontario is planning to lower its M&P rate to 10% by 2014.

- Saskatchewan levies no general corporate capital tax, and joins with British Columbia and Alberta as being competitive on this score. But this competitive edge too will soon disappear. By 2012, all provinces will have eliminated this tax.

- With respect to the financial corporate capital tax, Saskatchewan is the least competitive in western Canada. Saskatchewan's top rate for the biggest financial corporations is higher than Manitoba and British Columbia, and Alberta does not use the tax. The competitive gap will widen here too as both BC and Ontario have announced plans to eliminate the tax in 2011.

- While not a well-known tax outside of the insurance industry, taxation of insurance premiums does generate significant revenue. In Alberta, the tax is expected to raise $330 million in 2010. When it comes to these taxes, Saskatchewan levies a 3% tax on personal premiums and a 4% tax on property premiums. Both of these are higher than Alberta and Manitoba, as well as Ontario.

When it comes to the basket of corporate taxes, Saskatchewan is not generally competitive within western Canada, having a high general corporate income tax rate, a high small business corporate income tax rate, a high rate of financial corporate capital tax, and higher rates of tax on insurance premiums. The fact that Saskatchewan has no payroll tax helps when considering Manitoba and Ontario, but that is small comfort when it comes to British Columbia and Alberta. Future tax changes in British Columbia, Manitoba, and Ontario are sure to further erode Saskatchewan's competitive position. Saskatchewan needs to get to work on its basket of corporate taxes. The province is suffering from a relatively uncompetitive position today, and it will only get worse tomorrow.

3. Provincial Sales Taxes

When examining sales taxes, three taxes need to be pulled into view. These include Saskatchewan's broad-based general sales tax (the provincial sales tax or PST), the fuel tax on gasoline and diesel, and tobacco taxes. *(See Appendix E for additional detail and data.)*

- Saskatchewan's provincial sales tax rate is 5%, which is the lowest general sales tax rate of any province in Canada. With this rate, Saskatchewan is competitive with British Columbia and Manitoba, as well as Ontario. Saskatchewan's sales tax rate advantage will grow

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over the next few years, as both Quebec and Nova Scotia plan to increase their sales tax rates.

- The lack of a general provincial sales tax in Alberta endows that province with a clear competitive advantage, and presents Saskatchewan with a twin dilemma. On the one hand, increased use of the provincial sales tax relative to personal and corporate income taxes would improve Saskatchewan's tax mix. On other hand, moves in that direction do run the risk of "tax leakage" to Alberta through cross-border shopping, for example. The issue is not one that lends itself to easy resolution, and it also joins with other concerns (BTRC 2005).

- Saskatchewan is one of three provinces whose general provincial sales tax is a *retail sales tax (RST)* as opposed to a *value-added sales tax (VAT).* RST-type sales taxes hit upon inputs purchased by businesses in the production of goods and services, while VAT-types sales taxes (such as the federal GST or a provincial HST) are neutral with respect to business investment. From a competitive vantage point, this presents two difficulties for Saskatchewan. First, it brings additional pressure to bear on the generally higher corporate taxes that the province already levies. Second, it results in the "cascading" of taxes. Saskatchewan is currently competitive with Manitoba—which also levies an RST-type sales tax—but is certainly less so considering the new HST in British Columbia and Ontario.

- The provincial sales tax thus combines with the larger basket of corporate taxes to hit on existing as well as new capital investment. Not only do the taxes combine to affect the total tax paid as a percent of net business income *(the average effective tax rate or AETR)*, but they also combine to affect all new capital investment *(through the marginal effective tax rate on capital or METR).* The METR is a measure of all taxes paid—expressed as a percentage—on the gross return to capital for a new "break-even" investment. The METR is roughly analogous to the marginal tax rate (MTR) on personal incomes. The METR takes into account all taxes on new investment, and is expressed as a single percentage tax rate that applies to the revenue generated by the last unit of capital invested. According to some, the METR is much more important than the AETR when it comes to investment (Chen 2000). While all corporate taxes play a role, the impact of the provincial sales tax is not insignificant *(see Appendix H).*

- Application of the provincial sales tax in Saskatchewan is not straightforward, and is complicated in at least two ways. First, the tax is notable for exempting numerous goods and services, which narrows the base of the tax, results in uneven imposition, complicates the tax, increases both administration and compliance costs, and results in a higher rate of tax to produce the needed revenue. Second, to limit the impact on business and corporate investment, sales tax input credits have been made available to certain sectors—notably manufacturing and processing. For those businesses that qualify, direct agents and inputs purchased can be exempted from provincial sales tax. While the intent is laudable, it does result in a more complicated tax and also creates inequities among different groups of taxpayers.

- The impact of provincial sales taxes on those with lower and moderate incomes often draws attention and criticism. In Saskatchewan, such concerns have been a focus of policy. The 2008 changes to the personal income tax, for example, increased the Basic Amount and established a new and enhanced Low Income Tax Credit.

- Saskatchewan taxes both gasoline and diesel at higher rates than Alberta, Manitoba, and Ontario. Traditionally, Saskatchewan also taxed these fuels at a higher rate than British Columbia. However, the introduction of a carbon tax in BC has raised the effective tax rate on all forms of fuel including motor fuels. Today, Saskatchewan is more competitive than BC, slightly less competitive than Manitoba and Ontario, and much less competitive than Alberta.

- Saskatchewan's taxes on tobacco are at $40.30 per carton of cigarettes, and this is competitive with BC, Alberta, and Manitoba. The future challenge with tobacco taxes, not unique to Saskatchewan, is ensuring adequate revenues from the tax at the same time that the tax base is shrinking—tobacco use is following a long-term pattern of decline.

When it comes to competitiveness and its various provincial sales taxes, Saskatchewan has four challenges. First, Saskatchewan needs to find its way through a maze of taxes that are currently hitting hard on business investment in the province, and dealing with the provincial sales tax is part of that larger maze. Second, Saskatchewan needs to think of its policy response if Manitoba ever decides to pursue harmonization. That prospect will really put the competitive pinch on Saskatchewan. Third, Saskatchewan needs to consider how it can improve its use of sales tax in a bid to improve the larger tax mix without running afoul of Alberta, which has no general sales tax. Finally, Saskatchewan needs to find a way forward in all of this that will not add even more complexity to what is already a relatively complex tax. The challenges are formidable, and many of them were identified by the *Business Tax Review Committee* (BTRC 2005).

4. Municipal Property Taxes

Property taxes can be separated and compared along two tracks, each containing two components. The two tracks are municipal and education property taxes, and the two components are residential and non-residential property, with the latter including any business occupancy taxes that may also apply. *(Because municipalities employ the property tax differently, the scope of our comparison was largely restricted to the six big cities in the West—Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg. Comparisons for these cities were then supplemented with some province-wide data. Readers should note that the terms of reference for this project restricted the consideration of any potential municipal property tax reforms to Saskatoon and Regina. Further, reforms in the Framework define non-residential property as commercial and industrial property excluding agricultural property. See Appendix F for additional detail and data.)*

- With respect to the residential municipal property tax, the cities of Saskatoon and Regina appear to be generally competitive in terms of the overall tax level. For an average single detached house in 2009, the residential property tax in Saskatoon was only slightly higher than the average of Vancouver, Edmonton, Calgary, and Winnipeg. In Regina, it was lower.

- Per capita residential municipal property taxes in Saskatoon and Regina are comparable to those recorded by the other four cities. The per capita non-residential municipal property tax in Saskatoon and Regina is well below that of most other cities, with the exception of Winnipeg. Combined per capita residential and non-residential municipal property tax in Saskatoon and Regina is lower than Vancouver, Edmonton, and Calgary, and comparable to Winnipeg.

- In both Saskatoon and Regina, growth in residential and non-residential municipal property tax has generally been slower than the growth seen in Vancouver, Edmonton, and Calgary. Winnipeg has seen the least growth, however.

- With respect to the non-residential municipal property tax, a growing concern across Saskatchewan—and in many other western

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provinces—is the higher effective rates of property tax levied on non-residential properties compared to residential properties. Across Saskatchewan, this "gap" can reach up 3.5 depending on the municipality in view. In other words, the amount of property tax paid by non-residential properties, relative to assessed value, can be 3.5 times that of residential properties. A calculation for 2010 shows that the "gap" is 1.75 in Saskatoon and 1.95 in Regina.

- Both efficiency and equity in property taxation is compromised by such effective tax rate differentials, and in Saskatchewan, this is further compounded by the fact that properties are reassessed only once every four years. Equitable application of the property tax, along with frequent re-assessment, is required if the property tax burden is to be fairly shared.

- Both Saskatoon and Regina tend to collect a higher percentage of their total property tax from residential properties than non-residential properties than other western cities. That is the good news. The flip side, however, is that the total property taxes paid per each dollar of assessed value by residential and non-residential properties in both Saskatoon and Regina is much higher than many other western cities. At the end of the day, Saskatoon and Regina must collect property tax from a much smaller property tax base, and this means more pressure also being placed on that base (Garman, Weimer, and Associates 2009).

- The complexity of property taxation in Saskatchewan is notorious. In Saskatchewan the property tax eventually paid does not align directly to assessed value, but is a function of different property classifications, multiple sub-classes within those classifications, differential inclusion rates, differential mill rates, mill rate factors, tax increase phase-ins, property tax rebates, and other strange things like the minimum tax and the base tax (neither Saskatoon nor Regina use the minimum or base tax, however). With such extreme complexity, few taxpayers really understand the system. The overall effect is reduced transparency, accountability, public acceptance, and legitimacy.

5. Education Property Taxes

As noted earlier, the province of Saskatchewan recently assumed greater control over education property taxes in the province. When education property taxes are added to the municipal property tax, Saskatchewan's competitive position with the property tax suffers a deterioration. *(See Appendix G for additional detail and data.)*

- ❑ For an average single detached house in 2009, the residential education property tax paid in Saskatoon is the highest of all the western cities. While the residential education property tax in Regina is lower than that of Saskatoon, it too is higher than Edmonton and Calgary.
- ❑ Per capita residential education property taxes in Saskatoon and Regina are generally comparable to the other cities, but the two Saskatchewan cities do record higher levels of per capita non-residential educational property tax. When the per capita residential and non-residential property tax are combined, the values for Saskatoon and Regina are higher than Vancouver, Edmonton, and Calgary.
- ❑ When residential education property taxes are combined with municipal property taxes, Saskatoon emerges with the highest total residential property tax burden of any of the six big western cities, and Regina emerges with the third highest total property tax bill.
- ❑ The differences here are also substantial. Saskatoon's total property tax bill for a single detached house in 2009 is almost $1,000 higher than that of Calgary. Regina's total property tax bill is $420 higher than that of Calgary.
- ❑ The education property tax also results in non-residential properties being taxed at a higher effective rate than residential properties. Running calculations on a residential and a non-residential property, both assessed at $300,000, shows that a non-residential property owner pays 2.3 times what a residential property owner pays. The effective tax rate for a residential property owner is 0.67% (education property tax is 0.67% of assessed value) while the effective tax rate for non-residential property owner is 1.55%. Just like the municipal property tax, this raises equity and fairness issues.
- ❑ Administration of the education property tax is arguably less complex than the municipal property tax. That is all well and good, but that also makes the larger property tax system even more complex. Taxpayers

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have to negotiate around two different administrative approaches to the tax.

- In terms of Saskatchewan's competitiveness, the non-residential education property tax—generally higher than other provinces—also hits on new business and capital investment. Typically, most calculations of the *marginal effective tax rate (METR)* on capital ignore education property taxes because there is just too much variation in how the tax is applied across the various provinces. However, some work in this area has been done. One report showed that the non-residential education property tax in Saskatchewan does result in a loss of competitiveness with respect to METR. When property taxes are excluded, the spread in the METR between Saskatchewan and Alberta was 6.6 percentage points. When the education property tax is included, the spread opened to 9.1 percentage points (Greater Saskatoon Chamber of Commerce and Regina and District Chamber of Commerce 2009).
- In 2009, the Government of Saskatchewan reduced the amount of education property tax that it collects, and also committed to further reductions in the future. For property taxpayers, this was welcomed. The effort to reduce education property tax also shows up in the data. Between 2005 and 2009, for example, the education property tax on an average home fell in both Saskatoon and Regina. Per capita residential and non-residential education property taxes also fell. In contrast, education property taxes rose in Vancouver, Edmonton, Calgary, and Winnipeg. Thus, while education property taxes are higher in Saskatchewan, there is a downward trend that if continued can help bring education property taxes more closely in line with other western cities.

Putting the revenues from the property tax aside for just a moment, the bigger concern is that the property tax itself appears to be in trouble. Both the municipal property tax and the education property tax in Saskatchewan have become lost in a jungle of incremental changes that, while perhaps intended to improve the system, has added so much complexity that the tax is confusing if not baffling. This, combined with the differential effective rate of property tax on residential and non-residential properties poses the threat of a serious loss in legitimacy for the property tax. Going back to revenues, the relatively higher level of education property tax being paid compared to BC and Alberta is also a concern.

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CHAPTER 5: ROADMAP TO REFORM

Pursuing a more competitive tax system for Saskatchewan in an arbitrary or subjective fashion—allowing personal preferences, ideological considerations, or political perceptions to drive the selection and implementation of various tax policy choices—is bound to result in a less than optimal agenda for effective change. What is more, the approach is a weak platform upon which to build popular support for change. Equally ineffective would be for Saskatchewan to blindly follow its competitors. Every provincial tax system has its own history, is bounded at least to some extent by a unique set of values or prevailing social consensus, and provincial economies themselves differ dramatically. In the end, tax options that might work well in a large manufacturing economy like Ontario may have limited applicability to Saskatchewan, and just because Alberta has no general sales tax is no reason for Saskatchewan to dump its sales tax.

The more rational and objective way forward is to carefully consider the essential and beneficial criteria against which the merits of various taxes can be evaluated, and then ascertain the extent to which those *taxes* and their particular *administration* and *application* meet the beneficial criteria. Since there are literally dozens of criteria, they are best viewed within a framework. The first set of criteria in this framework speaks to various principles of sound tax policy, and how individual taxes are administered, applied, and used. The second set of criteria speaks to key directions that should guide the drive for a more competitive tax system. *(See Appendix I for additional discussion.)*

Principles for Sound Tax Policy

The following list contains a set of criteria against which a tax, its administration, application, and usage can be assessed and judged. To make the list easier to digest, it can be loosely organized around a set of broader themes, with each criteria briefly "defined" by asking a few simple questions.

1) Taxpayer Criteria

- *Equity:* Are taxpayers treated equally? Can the tax be defended as fair? Do taxpayers see it as fair?

- *Visibility:* Can taxpayers easily determine and understand their tax liability? Or, is the tax hidden?
- *Transparency:* Is the purpose behind the tax clear? Are those who should pay actually paying?
- *Simplicity:* Is the tax simple and straightforward, or complex, confusing, and difficult to understand?
- *Accountability:* Can a government be held to account for the tax and how it is spent?
- *Predictability:* Is the timing, manner, and amount of tax predictable? Or, is it arbitrary and unclear?
- *Legitimacy:* Do taxpayers accept the tax and the purposes behind it? Does it enjoy public support?

2) Economic Effects

- *Allocative efficiency:* Does the tax work for or against the efficient allocation of public goods and services?
- *Neutrality and distortions:* Is the tax likely to produce negative and significant distortions across the economy?

3) General Governance

- *Autonomy and local control:* Is the tax sufficiently under control of the taxing jurisdiction?
- *Tax capacity:* Is the tax used by other governments? Is there sufficient "room" within the tax?
- *Logical fit:* Does the tax make intuitive sense, with a link to the expenditures that it funds?

4) Administration

- *Ease:* Is the tax easy to establish, administer, and maintain?
- *Cost:* How costly is the tax to administer relative to revenue? Is it a "good" bargain or a "bad" deal?

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- *Revenue collection:* Are revenues easy to collect? Are collection rates sufficient? Or are arrears significant?
- *Compliance:* Does the tax result in sufficient voluntary compliance? Is compliance simple and easy?
- *Enforcement:* Is enforcement often required? If so, how much effort is required to enforce the tax?

5) The Tax Base

- *Identification:* Is the tax base easily identified? Can taxpayers understand what is being taxed?
- *Valuation:* Can the tax base be objectively and easily measured?
- *Size:* Is the tax base relatively narrow, or is it broad?
- *Stability:* How stable is the tax base in light of the ups and downs of the business cycle?
- *Mobility:* Is the tax base relatively fixed or can it move to avoid being taxed?

6) The Revenue Effect

- *Adequacy:* Are revenues sufficient at reasonable rates of tax? Can it meet expenditure needs?
- *Reliability:* Are revenue flows steady, reasonable, and predictable over time?
- *Flexibility:* Can the tax be easily adjusted to respond to changing fiscal circumstances?
- *Elasticity:* Do tax revenues generally track alongside economic and population growth?

Principles for Improving Tax Competitiveness

In applying these criteria against any possible tax reforms for Saskatchewan, it is important to realize two things. First, no single tax can deliver on each of the beneficial criteria. For example, achieving an acceptable level of equity within the personal income tax may require the adding of complexity. There are trade-offs here that have to be managed. Second, some criteria are more important than others, with equity and fairness, simplicity, transparency, accountability, and neutrality arguably topping the list. When identifying a package of potential tax reforms for Saskatchewan, these criteria were given the most weight. In addition to these important considerations, we also closed-in on a number of broader themes and considerations. This is the second set of criteria, which speaks to principles for building a competitive tax system.

1) Focus on Competitiveness and Growth-Enhancing Change

Whenever governments requisition funds through taxation, the economy and its potential for growth is impacted. The goal of tax reform is to limit those impacts in an effort to optimize economic potential. Some tax policy choices—a single rate personal income tax is a good example—can offer significant promise in that direction. But this must also balance against the community's perceptions of equity and fairness. The challenge for government is to identify growth-enhancing tax changes that can be implemented without doing violence to other deeply-held values that taxpayers share.

2) Stay Fiscally Responsible and Sustainable

Efforts at tax reform and reduction should not drive governments into deficit, and the changes should also be sustainable over the long-term. It does no one any good, for example, to have taxes reduced in one year, only to ramp up again next year. Tax regimes that are continually changing produce considerable risk—particularly for capital investment. When making investments and calculating the return needed on those investments, business looks not only to the prevailing tax regime but also how that regime might look in the future. An uncertain future raises the return needed to compensate for the increased risk, and this can prevent valuable investments from taking place. Budget deficits do much the same—they present the chance of higher taxation in the future as the books are brought back into balance.

3) Focus on the Broad Tax Environment

When it comes to tax policy, there are two philosophical approaches. The first seeks to create a positive climate for all types of economic activity and business investment—a broadly attractive tax environment. The second targets tax policy to attract specific investment and activities by building preferences into the system. While governments often pursue elements of both simultaneously, the first approach arguably yields more competitive advantage across the long-term.

4) Broaden the Tax Base

The above finds expression in a practical and simple direction. When considering tax reform, the drive should centre around keeping all tax bases as even and broad as possible. This means limiting preferences, exemptions, credits, deductions, special exclusions, and all other mechanisms that work to narrow the tax base.

5) Lower the Tax Rate

If tax bases are broadened, then the rate of tax can be lowered while the revenue produced remains intact. This lowers the economic impact of the tax. The competitive formula is simple—wide bases and low rates.

6) Keep Things Simple

Efforts at tax reform should focus on limiting regulations in the various tax codes and keeping all taxes as clean, simple, and straightforward as possible. If the average person cannot easily grasp the essential features of a tax, then that tax is too complex. In addition, reforms that are simple and easier to grasp also stand a much better chance of being successfully implemented.

7) Improve the Tax Mix

Many of the evaluative criteria for sound tax policy involve a number of trade-offs that cannot be managed within a single tax source. Thus, a certain measure of diversity within the system is necessary. Only when numerous tax sources are in play can a tax system capture and reflect all of the beneficial aspects within the various criteria. Tax systems, then, should not rely too heavily on one or two taxes. Taking the point a little further, competitive tax systems are also balanced tax systems that have a beneficial "mix" of the diverse taxes employed. In striving for balance, policy makers need to pay careful attention to relevant economic research, consider the tax mix in competing jurisdictions, and ensure that emerging economic realities—such as the increasing mobility of global capital investment—factor into

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the balance. Today, the global trend in taxation is marked by efforts to reduce reliance on personal and corporate income taxes and increase the emphasis on consumption or sales taxes—particularly broad-based value-added (VAT) sales taxes and user pay selective sales taxes. Sales taxes can raise revenue more efficiently and with less cost to the economy than many other taxes. Broad-based sales taxes also do less to discourage work effort and they exempt savings and investment—the "fuel" of enhanced productivity and economic growth.

8) Pursue Complimentary and Coordinated Change

Many tax systems—or at least some of the incremental tinkering that continually seems to occur within them—evidence certain contradictions. While no tax system can be entirely clear of at least some contradictions, integrating taxes and ensuring they work in a complimentary fashion is always a laudable goal.

9) Go Easy on Savings and Investment

Tax policy that pursues all possible avenues to lower the burden on savings and investment, especially corporate investment, can enhance economic potential. This helps attract and retain higher levels of both foreign and domestic direct investment. Proponents of this direction for change argue that it offers potential for the biggest competitive leaps forward.

Clearly, when it comes to tax competitiveness, the level of taxation is certainly one issue. But, it is not the only issue. Tax competitiveness and tax reform is not merely a question of blindly cutting taxes. Rather, it is a question of reforming taxes, improving their administration, striving for a reasonable tax mix, efficiently applying taxes, and maybe even swapping one tax up for another. If the overall level of taxation either should or can be reduced, then the right taxes have to be cut, and they need to be cut the right way.

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CHAPTER 6: TAX REFORMS

The *Framework* identifies seven specific reforms that can serve as the basis for a renewal of taxation in Saskatchewan, and the establishment of a more competitive tax position. The first six reforms touch on provincial personal income tax, the financial corporate capital tax, and the education and municipal property tax (including residential and non-residential, with non-residential defined as commercial and industrial property excluding agricultural property). The seventh reform speaks to improving the competitiveness of Saskatchewan business and easing the tax burden on capital investment. Since there are numerous ways to achieve that objective, the *Framework* identifies three options.

Reform #1: Education Property Tax (Residential and Non-residential)	
Action:	Transfer additional education funding away from the property tax to other provincial tax sources
Affects:	All property owners
Timing:	2011-2012
Impact:	$55 million (reduced revenue)

Reform #2: Education Property Tax (Non-residential)	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties
Affects:	Non-residential property owners and those that lease such property
Timing:	2011-2014
Impact:	$135 million (reduced revenue)

Reform #3: Municipal and Education Property Tax (Residential and Non-residential)	
Action:	Assessment cycle reduced from 4 years to 2 years, and a program of administrative simplification
Affects:	All property owners
Timing:	2011-2014
Impact:	$1 million (one-time expenditure for transitional purposes)

Reform #4: Personal Income Tax	
Action:	Move to a dual rate structure of 9% and 12%
Affects:	All taxpayers with taxable income
Timing:	2013-2018
Impact:	$525 million (reduced revenue)

Reform #5: **Municipal Property Tax (Non-residential properties in Regina and Saskatoon)**	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties
Affects:	Regina and Saskatoon non-residential property owners
Timing:	2017
Impact:	$0 (funded through incremental growth in the property tax base over time)

Reform #6: **Financial Corporate Capital Tax**	
Action:	Eliminate
Affects:	Financial institutions
Timing:	2019
Impact:	$21 million (reduced revenue)

Reform #7: **Improve the competitiveness of Saskatchewan business (3 options)**	
OPTION A	
Reform:	Provincial Sales Tax
Action:	Harmonize PST with GST at a provincial rate of 7%
Affects:	All Saskatchewan taxpayers
Timing:	2017
Impact:	$75 million (increased revenue)
OPTION B	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 9% and small business rate to 3%
Affects:	Incorporated businesses
Timing:	2017-2018
Impact:	$232 million (reduced revenue)
OPTION C	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 10%, small business rate to 3.5%, provide PST offsets
Affects:	Incorporated businesses
Timing:	2017-2018
Impact:	$150 million (reduced revenue)

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Summary of the Reforms

The chart below *(Figure 1)* highlights the primary actions contained in the reforms, and which ones will occur depending on if Option A, Option B, or Option C is chosen.

FIGURE 1: Actions Contained in the Various Reforms

	Option A	Option B	Option C
Reduce Education Property Tax	YES	YES	YES
More Frequent Assessments	YES	YES	YES
Simplification of the Property Tax	YES	YES	YES
Cap Differential for Non-Residential Education Property Tax	YES	YES	YES
Cap Differential for Non-Residential Municipal Property Tax	YES	YES	YES
Reform and Reduce Personal Income Tax	YES	YES	YES
Harmonize Provincial Sales Tax	YES	NO	NO
Reduce Corporate Income Tax (9% and 3.5%)	NO	YES	NO
Reduce Corporate Income Tax (10% and 4%)	NO	NO	YES
Provincial Sales Tax Offsets (Input Credits or Point of Sale Exemptions)	NO	NO	YES
Eliminate Financial Corporate Capital Tax	YES	YES	YES

Source: Developed by the Canada West Foundation.

Filling in the Details

Reform #1: Education Property Tax (Residential and Non-residential)	
Action:	Transfer additional education funding away from the property tax to other provincial tax sources

The action behind this reform is to transfer additional education funding away from the property tax to other provincial tax sources within the province's General Revenue Fund. In 2009, the province announced it would transfer $103 million in 2009/10 and another $53 million in 2010/11. While the government did accomplish the first transfer, budget pressures caused the government to postpone the second. This reform would have the government completing the transfer.

Reform #2: Education Property Tax (Non-residential)	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties

The effective rate of tax paid by owners of non-residential properties is much higher than the effective rate of tax paid by owners of residential properties (non-residential is defined here as commercial and industrial property, including other property classifications, that are subject to the current three-tier rate structure but excluding agricultural property). The purpose of this reform is to reduce the size of the differential to 1.43, which would equalize the effective rate of tax as businesses can deduct property taxes from their personal and corporate income tax liability. The reform would also eliminate the three-tiered rate structure for non-residential properties. *(This reform is similar to Reform #5, which would accomplish the same for the municipal property tax in Saskatoon and Regina. Funding for the shift in education property taxes involves a large sum and a relatively tight timeframe. For this reform, the funding should come from other provincial revenue sources. Funding for the municipal property tax shift should come over a longer timeframe as the assessment base expands. The reason is that municipalities have no other tax sources at their disposal aside from the property tax itself to fund the required shift.)*

Reform #3: Municipal and Education Property Tax (Residential and Non-residential)	
Action:	Assessment cycle reduced from 4 years to 2 years, and a program of administrative simplification

Under this reform, the assessment cycle would be reduced from four years to two years. Further, provincial legislation governing the property tax would do away with inclusion rates, mill rates, mill rate factors, tiered mill rates, base tax, and minimum tax by substituting an effective rate of tax to be calculated for each classification of property. The effective tax rate is the relationship of actual taxes paid to total assessed value, which is usually market value in Saskatchewan.

Reform #4: **Personal Income Tax**	
Action:	Move to a dual rate structure of 9% and 12%

Over a significant phase-in period, the personal income tax would move from the current three rate structure of 11%, 13%, and 15% to a dual rate tax of 9% and 12%. The first stage of the reform would impose a first rate of 10% and a second rate of 13%. The income threshold in use for the middle rate of 13% under the current system ($40,354 in 2010 but indexed for inflation) would be the dividing point between the 10% rate and the 12% rate. The second phase would see the top rate fall to 12%, with the thresholds unchanged (although indexed as per current policy). The third phase keeps the 10% and 12% rates intact, but steps up the income threshold for the second rate. The fourth phase would step up the threshold once more, with the ending point being the threshold that applies to the 15% rate under the current system ($115,237 in 2010 but indexed for inflation). The fifth phase would lower the first rate to 9%. At that point, the reforms would reach their maturity. All income under the current threshold (as indexed for inflation) for today's 15% rate would be taxed at the 9% rate. All income over the current threshold (as indexed for inflation) for today's 15% rate would be taxed at the 12% rate.

Reform #5: **Municipal Property Tax (Non-residential properties in Regina and Saskatoon)**	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties

This reform integrates with a similar move for the education property tax (again non-residential refers to commercial and industrial property excluding agricultural property). The reform would, however, be implemented over a longer time horizon and be funded differently. The idea is to implement the shift over time as the assessment base increases, and a portion of that increase is used to cover the cost of the shift. The City of Saskatoon recently achieved a differential of 1.75. *(While the focus of this reform lands on Saskatoon and Regina, the logic and purpose behind it arguably apply with equal force to municipalities right across the province.)*

Reform #6: Financial Corporate Capital Tax	
Action:	Eliminate

This reform eliminates the financial corporate capital tax. This would be the last reform implemented, and is scheduled for 2019/20. The reform will encourage growth in small and medium-sized financial institutions and reduce inequities within the financial sector.

Reform #7: Improve the competitiveness of Saskatchewan business (3 options)	
OPTION A	
Reform:	Provincial Sales Tax
Action:	Harmonize PST with GST at a provincial rate of 7%

This option would see the provincial sales tax harmonized with the federal GST at a provincial rate of 7% and a federal rate of 5%. This move would be accompanied by enhancements to the Low Income Tax Credit in the personal income tax and a new credit for residential home purchases.

Reform #7: Improve the competitiveness of Saskatchewan business (3 options)	
OPTION B	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 9% and small business rate to 3%

This option would accomplish some of the same objectives as harmonization, but would do so by lowering the general rate of corporate income tax to 9% and the small business rate to 3%.

Reform #7: Improve the competitiveness of Saskatchewan business (3 options)	
OPTION C	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 10%, small business rate to 3.5%, provide PST offsets

This option involves smaller reductions in the general and small business corporate income tax rate, and combines that with a set of offsets for business that pay provincial sales tax. Such offsets could include increasing sales tax input credits and making them available to a broader range of businesses and sectors, point of sale exemptions, or even enhancements to the capital cost allowance system.

Other ideas were brought up in addition to these reforms, but they did not hit directly on those tax areas standing in need of the most improvement, or were ideas best deferred until the larger tax policy landscape becomes more clear. Two areas in particular are worth mentioning:

1) Selective Sales and Excise Taxes

To help address a number of environmental issues and concerns, there is momentum behind a "green" tax reform agenda. To be sure, these are reforms with which the provincial government should be concerned. At the same time, many of these potential tax reforms are tied up with what the federal government might eventually do, and there is additional uncertainty considering the larger North American and global situation with respect to emissions and other environmental issues. Given this context, the *Framework* identifies no reforms that tie specifically into the "green" tax reform agenda.

2) Natural Resource Royalty Structure

While capital investment in natural resource development is highly sensitive to provincial royalty rate structures, it is a complex field that stands somewhat apart from the traditional personal and corporate tax picture. Further, there do not appear to be any strong signs that changes are needed. Continual monitoring, however, is certainly advisable. There are some recent indications that energy companies are reallocating some of their capital investment from Saskatchewan to Alberta in response to recent royalty changes in that province (MacDougal 2010). Therefore, Saskatchewan should continue to make sure that its royalty system remains competitive, and that it balances with the important policy goal of earning a fair return for the development of the province's energy resources.

CHAPTER 7: TAX REFORMS AND THE IMPACT ON THE EVALUATIVE CRITERIA

All of the proposed reforms link to the evaluative criteria that should drive efforts to forge a more competitive tax policy. The reforms cut a wide swath, and touch on the principles of sound taxation and principles for improving tax competitiveness. This chapter tracks how each proposed reform captures the benefits of those principles, and then closes with a brief summary.

Reform #1: Education Property Tax (Residential and Non-residential)	
Action:	Transfer additional education funding away from the property tax to other provincial tax sources

Principles for Sound Tax Policy: Lowering the education property tax improves on critical taxpayer criteria, addresses several governance issues, and reflects the limited nature of the tax base and revenue adequacy. With respect to taxpayers, the education property tax is levied against the value of local properties but is then expensed not by local governments but by the province. This separation results in the blurring of transparency, a loss of accountability, and lower public acceptance and legitimacy of the tax. In addition, the reform addresses an outstanding commitment made to taxpayers. With respect to governance, the property tax makes at least some intuitive sense as a funding source for services to local property because the services provided to a property increase the value of that property. But the education property tax sees a local tax base funding a province-wide expenditure. Thus, the logical fit between the funding source and the expenditure is much weaker. In the past, this link was stronger as local property taxes funded local schools, but education today has a strong provincial presence. Using the property tax for provincial expenditures also works against reserving the property tax for local government purposes. The property tax has a limited capacity, and funding education through it results in competition for what is arguably a limited tax source. The property tax base is a narrow base, and while perhaps adequate for funding a limited set of services to "property" it is ill-suited for services to "people" such as education. The revenues produced by the property tax are relatively inelastic and do not always respond well to economic growth, population increases, or inflation. Yet, education expenditures rise steadily. The revenue produced by the tax does not link well to the nature of the expenditures.

Principles for Improving Tax Competitiveness: While both individuals and businesses pay the education property tax, it is a fixed cost for business that is unrelated to profit or net income earned, and the property tax also increases the marginal effective tax rate on capital investment. As such, a lowering of property tax would be a growth-enhancing move that also eases the tax burden on business savings and investment. It is a simple reform that is easy to explain and understand. Greater emphasis on provincial General Revenue Fund sources also implies a more diverse funding base for education, and the reform would also improve the overall tax mix by emphasizing better and more efficient tax sources. Lowering the emphasis on education property tax would also provide better balance in the system by reflecting the practice in British Columbia and Alberta, both of which are less reliant on property taxes for education.

Reform #2: Education Property Tax (Non-residential)	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties

Principles for Sound Tax Policy: Limiting differentials in the effective tax rate between residential and non-residential properties advances several taxpayer criteria, economic criteria, and administrative criteria. Most important, the move would improve equity and fairness within the education property tax system. There are simply no valid economic or policy reasons for the current differential other than it can be politically imposed. The 1.43 cap will result in a complete equalization and evening of the tax as business can deduct their property tax liability against personal and income taxes payable. Under the reform, non-residential properties will still pay more, but the net effect is an equalization. By capping the differential, the move will simplify the system and improve transparency—clearly spelling out the limits of any differential. Increased transparency also promotes better accountability, and in this in turn, should help increase acceptance of the tax within the business community. In promoting equity and fairness, the reform also has economic spill-overs, of which the most important is promoting a more neutral tax system. Administration is also simplified as limits have been set, and ends further debate over what is, or is not, an acceptable differential.

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Principles for Improving Tax Competitiveness: This reform closes a competitive gap, especially with Alberta. While it does not broaden the base, it certainly evens out the base. The reform is simple, easy to understand, and eases up on savings and investment by ending what is a discriminatory practice against non-residential property. The reform promotes a better balance, particularly considering the practices of other provinces with the education property tax. For example, the education property tax in Alberta has much smaller differentials between residential and non-residential properties. The reform is also complimentary to other recent tax changes, particularly the cuts in the corporate income tax rate from 17% to 12%, and the earlier elimination of the general corporate capital tax. The reform feeds into this larger thrust and gets the education property tax working in a similar direction.

Reform #3: Municipal and Education Property Tax (Residential and Non-residential)	
Action:	Assessment cycle reduced from 4 years to 2 years, and a program of administrative simplification

Principles for Sound Tax Policy: This reform involves a more frequent assessment cycle and a simplifying of the municipal and education property tax by doing away with highly confusing elements of the system such as the base tax, minimum tax, inclusion rates, mill rates, tiered mill rates, and mill rate factors. All of that would be replaced with an effective rate of tax for each classification of property. An effective tax rate is a simple percentage relationship of the taxes paid to assessed value. If the property tax bill is $2,000 on a $200,000 property, then the effective tax rate is 1.0%. This reform improves upon a number of taxpayer and administrative criteria. First, a shorter assessment cycle will yield a more accurate valuation of property, which is critical to ensuring equity and a fair sharing of the tax burden. This is particularly important when an economy is growing and property values across property classes and even within property classes are changing. When assessments are infrequent, the property tax bill can change suddenly from one year to the next when re-assessment does occur. This can cause spikes in some property tax bills. More frequent assessment will increase the predictability and stability of property tax payments, and reduce what sometimes appears to be an arbitrary increase. In short, the reform builds a little more certainty into the system. Second, a simplification of the system is clearly in order. Using an "effective tax rate" in place of mill rates, tiered mill rates, mill rate factors, inclusion rates, base tax, and minimum tax will make the system much easier to understand, provide a foundation for better transparency and accountability, and shore up acceptability and legitimacy of the property tax. The reform will also make the tax much easier to administer, although there will be some additional cost to shortening the assessment cycle. The increased cost is a necessary trade-off in achieving valuable improvements across a range of taxpayer criteria.

Principles for Improving Tax Competitiveness: The focus on an "effective tax rate" will keep the property tax free of unnecessary complexity, and the reform itself is both simple and easy to pursue. The reform also seeks to balance the system by driving closer toward both British Columbia and Alberta, which have much more simple property tax systems. In Alberta, for example, there is a differential in the education property tax between non-residential and residential properties, and also differentials within the municipal property tax system. However, those differentials are clearly stated by a different mill rate—and only a different mill rate. There is no "fooling around" with the tax base, or the adding of other complications that reduce transparency. The differentials in Alberta are easy to see and easy to calculate. Furthermore, this reform has the least fiscal impact, and is therefore quite sustainable. Despite the ease and low cost, the gains from a taxpayer's perspective are immense.

Reform #4: Personal Income Tax	
Action:	Move to a dual rate structure of 9% and 12%

Principles for Sound Tax Policy: This reform involves a compression of the personal income tax from its current three rate structure to a two rate structure, as well as a lowering of the rate of tax. The move improves on a number of taxpayer criteria, administrative criteria, and economic criteria. For taxpayers, the reform will result in a more simple and visible system. This makes the tax easier for government to administer and monitor, and makes compliance with the tax easier for the taxpayer. The reform also improves on vital questions of equity and neutrality. The lowering of the tax rate will provide relief for all who pay personal income tax, but an additional measure of relief will be provided for those with low and moderate incomes, as well as those with higher incomes. Thus, compressing the personal income tax will generate economic and efficiency benefits as the system moves to a more neutral basis with respect to income. For those with low and moderate incomes, a dual rate tax will do less to discourage work and work effort. For those at higher income

DISCUSSION BOX #1: Single Rate Personal Income Tax

The debate over maintaining a personal income tax system with multiple tax rates that increase as the level of taxable income increases, or shifting to a single rate of tax for all levels of taxable income, is a perennial discussion in tax policy circles. Bringing clarity to the debate is neither simple nor straightforward. Currently, more and more voices are making the case for a single rate tax at the provincial level—taxing all income above a certain threshold at a constant rate of tax. The debate often generates a lot of heat, but precious little light.

When it comes to understanding the debate, it is helpful to keep three points in mind. First, a system with a single rate of tax can be one of two types. It can either be a "proportionate" or "flat" tax or it can be a form of "progressive" tax. Under the former, no income is exempt from tax and there are no credits available to reduce the amount of tax owing. This type of system is proportionate or flat since each and every dollar earned—at all levels of income—is taxed at the same rate. A person earning $10,000 at a rate of 10% will pay $1,000. A personal earning $100,000 will pay $10,000. Under the latter, however, the single rate tax combines with a basic exemption and a system of credits. This guarantees that the single rate tax will have a measure of progressivity.

The single rate tax in Alberta proves the point. The Alberta single rate system provides a generous basic exemption, a generous spousal exemption, and a number of credits. In 2010, a single taxpayer in Alberta earning $30,000 will pay 3.78% of that income in personal income tax. A single taxpayer earning $100,000 will pay 8.03% of that income in personal income tax. Alberta's single rate tax is most certainly a progressive tax.

This leads to the second point. Supporters of a pure "proportional" or "flat" income tax are few and far between because of the strain such a system would place on most people's definition of equity and fairness. As such, the debate here is not about choosing a "progressive" system over a "non-progressive" system. Rather, the debate is about the degree of progressivity that a system can and should provide. As already noted, a single rate personal income tax can most certainly be a progressive tax. It can be progressive because most personal income tax systems—both multiple rate and single rate—provide exemptions and credits that guarantee a measure of progressivity.

The real question is whether a single rate tax can be made progressive enough to satisfy the preferences of the community. In other words, the debate is about how progressive a system should be—highly progressive, moderately progressive, or slightly progressive. And, the answer to that question is not found by choosing a multiple rate personal income tax over a single rate personal income tax. Single rate systems are certainly progressive, and even multiple rate systems can be accused of not being progressive enough.

Third, the debate is all about managing the trade-off between equity and efficiency. Proponents of highly progressive systems argue that they are more equitable because those with an increased ability to pay—those with higher incomes—are required to pay more tax and to do so at higher rates of tax as income rises. Proponents of less progressivity argue that highly progressive tax systems are less economically efficient and result in distortions and disincentives. For example, highly progressive systems can discourage people from working or earning more income as each additional dollar earned is subject to higher and higher rates of tax. The end result is lower productivity and less economic growth, especially if a highly progressive tax chases away high income earners with their investment dollars and desirable skills.

A single rate income tax—usually less progressive than a multiple rate tax—helps solve some of these disincentives. On the one hand, most single rate tax systems exempt low income earners from paying any tax at all through a large basic personal exemption, often accompanied by a

...more

generous spousal exemption. These exemptions are usually much higher than those provided by multiple rate systems. On the other hand, the single rate tax limits the liability of high income earners by the lack of a graduated rate structure. The single rate tax removes disincentives at the lower end of the income scale and removes negative effects like higher marginal tax rates at the higher end of the income scale. Single rate tax systems are more neutral with respect to income, and this makes them more efficient.

Again, some data is helpful. British Columbia maintains one of the more progressive provincial personal income tax systems in Canada. In BC, a one-income family with two dependent children earning $30,000 will pay $380 in personal income tax in 2010. In Alberta, that same family will pay no tax. Alberta's single rate tax provides relief for those with low and moderately low incomes. In BC, a one-income family with two dependent children earning $200,000 would pay $21,370 in personal income tax. In Alberta, that same family will pay $16,344. Alberta's single rate tax provides a measure of relief at the top of the income scale as well. If those with low or high incomes stand to benefit more from a single rate tax, then it must be the very large group in the middle who pick up the slack. Indeed, this is often the case. In BC, a one-income family with two dependent children earning $70,000 would pay $3,251 compared to $3,344 in Alberta. While the difference is not large—only $93 in this case—the very idea of the middle carrying a slightly higher burden is also where most single rate tax proposals crash and burn.

In considering a single rate tax, implementation is critical. When Alberta moved to a single rate tax in 2001, the province did it in such a way that every taxpayer, regardless of income, stood to benefit. While those at the lower and higher income levels may have seen more benefit, every taxpayer did win. What is more, even middle income earners in Alberta are generally taxed lower than in other provinces that maintain more progressive systems. Despite all this, the choice of moving to a single rate tax may be just too difficult for some. But there are softer options as well. For example, the spread between the different rates in a progressive system can be lowered, the income thresholds at which the rates are applied can be adjusted, or additional credits enhanced. This reflects aspects of the changes introduced by Saskatchewan in 2008. Another option is the dual rate tax—two rates of tax. This is the compromise between the traditional three-rate income tax and the single rate income tax.

levels, the tax will result in a lowering of the marginal tax rate (MTR). This will make it easier for Saskatchewan to attract and retain young, educated, and skilled labour, in addition to individuals that possess vital investment dollars. All of this will provide a boost to the current government's innovation agenda. However, a dual rate tax does not accomplish this at the expense of violating equity considerations or perceptions of fairness, particularly for those who support a higher level of progressivity than what a single rate tax might offer (see *Discussion Box #1*).

Principles for Improving Tax Competitiveness: Moving to a dual rate tax addresses competitive issues with British Columbia and Alberta, and should be a growth-enhancing move that is sustainable if implemented over a long-term horizon. In lowering the marginal tax rate (MTR), the move eases up on the taxing of savings and investment. The idea of a dual rate tax is a balanced competitive response—a solid and effective compromise given the current three rate structure in Saskatchewan and the single rate structure in Alberta. It moves the personal income tax system in Alberta's direction, but maintains a higher degree of progressivity than Alberta's single rate. It is a good compromise between advocates of a single rate tax and those who are concerned with maintaining a higher measure of progressivity.

Reform #5: **Municipal Property Tax (Non-residential properties in Regina and Saskatoon)**	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties

Principles for Sound Tax Policy: Reform #5 reflects Reform #2, but is somewhat lower down the priority list and the method of implementation is also different. While the same rationale also applies, there are a few additional points to make with respect to this reform. One of the more important relates to the economic effect. In the municipal context, a higher effective property tax rate on non-residential properties amounts to a subsidy for all residential properties (Vander Ploeg 2008). This subsidy is a benefit to residential property owners, who receive a level of municipal services for which they are not paying. This in turn causes the demand for municipal services to artificially increase over and above what would be demanded if the residential community were to cover the full cost of the services provided. Not only does the differential result in a certain amount of allocative inefficiency and waste, it raises the total cost of municipal government. To be sure, a measure of cross-subsidization is almost unavoidable when it comes to taxation, but this differential within the municipal property tax system exacerbates the effect. This reform evens out the tax base and keeps a lid on such distortions by drawing a tighter link between those who demand municipal services, receive municipal services, and should also pay for what they demand and receive.

Principles for Improving Tax Competitiveness: The reform is quite sustainable in terms of the fiscal impact to government, as the funding for the shift will come over time through expansion of the local assessment base. What is required, is for municipal governments to slowly shift the property tax burden away from non-residential property owners and to the residential property owners, who consume the great bulk of municipal services and infrastructure. Perhaps more important, the reform speaks to an already stated goal of some Saskatchewan cities, and in that sense, is very practical. For example, both Saskatoon and Regina already have some of the highest rates of residential property tax collected versus non-residential, and the

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City of Saskatoon has been pursuing an even better realignment and evening of the tax base for some time. The City of Saskatoon recently reached its goal of limiting the differential paid by non-residential property owners to 1.75 of that paid by residential property owners. This reform is intended to encourage both Saskatoon and Regina—as well as other municipalities—to continue such efforts. In identifying the goal of a 1.43 differential, the reform encourages municipalities to go a little further beyond the 1.75 goal in Saskatoon, achieve complete equalization, and set the example for all other cities in western Canada. This reform builds off a similar reform with the education property tax, and is therefore a complimentary action. It makes little sense, for example, to limit the differential between residential and non-residential property owners for the education property tax and not attempt the same at the municipal level. Pursuing this reform gets the entire property tax system moving in the same direction in a coordinated fashion.

Reform #6: Financial Corporate Capital Tax	
Action:	Eliminate

Principles for Sound Tax Policy: Eliminating the financial corporate capital tax improves on a number of taxpayer criteria as well as certain economic criteria. From the taxpayer's perspective, equity is of particular concern. The financial corporate capital tax applies only to the financial sector, but not to corporations in other sectors. (The general corporate capital tax was recently eliminated for all non-financial corporations.) Second, the tax is not applied equally across the financial sector— some corporations pay the tax (e.g., banks) while other corporations are exempt (e.g., credit unions). Third, the tax applies for large corporations with smaller ones likewise being exempt. In eliminating the tax, these current inequities will be eliminated as well. Because of such inequities, the tax is far from economically neutral, and it is also unrelated to income or profit. Thus, it suffers from same of the same inherent problems as the property tax. The financial corporate tax raises only a small amount of revenue—about $20 million per year. At the same time, it is one of the more costly taxes for business to manage. This tax is simply not a good bargain.

Principles for Improving Tax Competitiveness: Eliminating the financial corporate capital tax speaks to a number of themes for improving tax competitiveness, including easing up on the taxation on savings and investment. Corporate capital taxes do not tax net income, but the built

DISCUSSION BOX #2: Easing the Tax Burden on Business and Capital Investment

Harmonization is a way to relax the taxation of business investment and spur continued economic prosperity in Saskatchewan. That said, it is certainly not the only way to improve upon the province's economic prospects. There is significant controversy that surrounds the debate over harmonization—particularly in British Columbia. The Saskatchewan government has decided not to pursue harmonization at this time. Given the current environment and the political dynamics, this is understandable. As such, the *Framework* identifies other options that work to accomplish some of what the HST is intended to achieve with respect to the taxation of capital investment.

It is important to understand that tax reform has always been tough sledding politically. Many times, changes are pushed and advanced without considering whether those changes are doable politically. Tax reform always stands a better chance when there is a certain measure of consensus. A lack of consensus can prevent the change from occurring even if it would be highly beneficial. To work, good tax policy must also be good politics.

But even if the prospects for harmonization in Saskatchewan are low today, the option should not be entirely thrown off the tax policy table. As mentioned right up front, governments wishing to stay competitive with their tax policy need to continually monitor developments and make adjustments to their own policies in light of those developments. When it comes to the various options affecting business and capital investment, the long implementation period for the reforms provide Saskatchewan with time to monitor current and future developments, consider and reflect on the alternatives, and weigh the advantages and disadvantages. The implementation schedule has decisions on these matters occurring in 2017/18.

When it comes to the harmonization question, Saskatchewan should be watching how the experience unfolds in British Columbia and Ontario, how it affects consumer prices, how it impacts on lower income groups, and how it impacts on things like new home investments, for example. Saskatchewan can also continue considering some of the detailed elements of the harmonization option, particularly those changes it would like to see in any harmonization agreement. Quebec, for example, uses a "partially" harmonized tax. Is that a possibility for Saskatchewan? The harmonization agreement with British Columbia included special provisions adjusting the harmonized tax base according to provincial preferences. What adjustments would benefit Saskatchewan? How could harmonization be made to fit and work better for Saskatchewan? How can various myths surrounding harmonization be addressed? How can the concerns of Saskatchewan citizens be effectively addressed? These are all important questions, and they do require sufficient time to be fully explored and answered.

A particular issue that causes worry concerns the lack of a provincial sales tax in Alberta, and how that might impact on efforts to harmonize at a higher provincial tax rate in Saskatchewan, and thereby secure a better tax mix. While the answer is not completely clear, it should certainly continue to be explored. In doing so, a few points might be of help. First, the 7% rate is the most often used rate in Canada—the same as both British Columbia and Manitoba. Second, it was not that long ago that Saskatchewan had a 9% sales tax rate. Third, tax rate competition is likely more important when it comes to personal and corporate income taxes than to sales taxes.

up capital in corporations, as measured by debt and equity. The tax serves as a disincentive to build equity in corporations, as that equity is taxable. Across the economic policy community, the corporate capital tax is seen as one of the worst possible taxes to employ, and their cost

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to the economy can be high. In the end, then, the reform is a growth-enhancing move. Of all possible moves on the corporate tax front, this reform is perhaps the most simple and straightforward. The reform is also sustainable in that the tax can be eliminated at relatively low cost to the government. In eliminating the tax, the overall system will better balance with current trends in Saskatchewan's competitor provinces. Alberta eliminated its financial corporate capital tax in the mid-1990s, and both British Columbia and Ontario are planning to eliminate the tax in 2011. The move is complimentary, building off Saskatchewan's prior reductions in corporate income tax.

Reform #7:
Improve the competitiveness of Saskatchewan business (3 options)

Improving the competitiveness of Saskatchewan business through efforts at tax reform can be pursued in numerous ways because the total corporate tax take results from a basket of taxes—corporate income tax, corporate capital taxes, non-residential municipal and education property tax, and the taxation of business inputs by the provincial sales tax *(Discussion Box #2)*. In working to improve upon the taxation of business and lower the tax burden on valuable capital investment, there are a number of different tracks that can be considered. The *Framework* identifies three options.

Reform #7: Improve the competitiveness of Saskatchewan business (3 options)	
OPTION A	
Reform:	Provincial Sales Tax
Action:	Harmonize PST with GST at a provincial rate of 7%

Principles for Sound Tax Policy: Harmonization improves on administrative, economic, and taxpayer criteria, and also touches on governance. The current provincial sales tax is complicated, with a number of exemptions and a system of input sales tax credits. Harmonization would simplify the tax, make it more visible and transparent, and easier to administer. The costs of administration would shift to the federal government, improving net provincial revenues. The option would also result in an expanded tax base, improving the neutrality of the tax. With respect to governance, the 2.0 percentage points recently vacated by the federal government has opened up room in the tax. With respect to taxpayers, however, the move does raise a number of equity concerns—particularly the shift in the tax burden from business to consumers and the potential for an adverse affect on those with lower incomes. Providing offsets and rebates to resolve equity concerns are one option to address this problem, but they also work against the drive for simplification. Complimentary changes in the personal income tax system are a better option, and can do much to relieve equity issues.

Principles for Improving Tax Competitiveness: Harmonization is a growth-enhancing option that lowers costs for business, eases up on the taxation of investment, exempts business inputs on a value-added basis, and increases the competitive positioning of Saskatchewan's exports. Harmonization would, for example, lower Saskatchewan's *marginal effective tax rate (METR)* on new capital investment (see *Appendix H*). The option would also broaden and even out the tax base, improve the tax mix, and see Saskatchewan's tax system better balance and align with those in British Columbia and Ontario, both of which have pursued harmonization. Harmonization also complements recent reductions in the corporate income tax rate, and gets the provincial sales tax pushing in the same investment and growth-enhancing direction. There is also a practical element. It was not long ago that Saskatchewan had a 9% provincial sales tax. Combined with the 7% federal GST, the total sales tax was 16%. This option would see a federal rate of 5% and a provincial rate of 7% for a total of 12%. An expanded base, more competitive exports, less taxation of business investment, and an improved tax mix can come into play in Saskatchewan at a rate of tax that is still 25% *lower* than in previous years.

Reform #7: Improve the competitiveness of Saskatchewan business (3 options)	
OPTION B	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 9% and small business rate to 3%

The provincial retail sales tax is only one tax that hits on business, and it is the corporate income tax that likely has the largest single impact. Another option to consider is reducing the general and small business corporate income tax rates.

Principles for Sound Tax Policy: Lowering the corporate income tax rates to 9% and 3% would improve on taxpayer criteria as well as economic criteria. When it comes to taxpayers, the move would result in better equity. The gap between the general and small business rate would be reduced from its current 7.5 percentage points to 6.0 percentage points, the special rate preference for the M&P sector would be eliminated, and when the full range of personal income tax reforms are implemented, the result would be an integrated personal and corporate income tax system—many incorporated and unincorporated businesses would face the same tax rate—9% in the CIT and 9% in the PIT. These improvements in equity also have an economic effect, which is to make the tax more neutral. Reducing the corporate income tax rate also recognizes the increasing mobility of investment capital.

Principles for Improving Tax Competitiveness: This reform touches on a number of competitive themes in the evaluative criteria, particularly lowering the tax on investment and pursuing broad-based reductions as opposed to targeted reductions. The change is simple and easy to understand, it has been done in the past, and would clearly be growth-enhancing. The move also responds to trends emerging in British and Columbia and Ontario, both of which plan corporate income tax reductions in the near future. The reform would give Saskatchewan the lowest general corporate income tax rate in western Canada, and the small business rate would be competitive with Alberta. All of that provides for some very good optics, even if the option carries a higher fiscal impact for government. Moving forward on the corporate income tax in this direction remains a solid option.

Reform #7: **Improve the competitiveness of Saskatchewan business (3 options)**	
OPTION C	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 10%, small business rate to 3.5%, provide PST offsets

Principles for Sound Tax Policy: Smaller reductions in the corporate income tax rate combined with either expansion of provincial sales tax input credits, point of sale exemptions, or changes to the capital cost allowance system would also result in a lower tax burden on capital investment. Moving from the current general corporate income tax rate of 12% to 10% is substantial, and it would bring Saskatchewan into line with British Columbia, Alberta, and Ontario, all of which have, or plan to have, a general CIT rate of 10%. This too makes Saskatchewan competitive. A small business rate of 3.5% would also be relatively competitive with

Alberta's 3% rate. There would be an improvement in equity as well. The gap between the general rate and the small business rate is lowered, and the preferential rate for the M&P sector is eliminated.

Principles for Improving Tax Competitiveness: This reform touches on the same growth-enhancing themes as Option A and Option B. In that way, all three options are quite similar. But, this option would also see the addition of new credits to offset the impacts of provincial sales tax on business, which works in the opposite direction of trying to secure more simplicity in taxation. As such, administrative costs to government and compliance costs to business may rise. Because the reform will result in the creation of special preferences and credits, it is arguably less broad-based. Yet despite these downsides, this reform remains a solid option as well.

Summary

In *Chapter 5* and *Appendix I*, we identified the evaluative criteria that informed our discussions over the various reform options. In working through the reforms and how they link with these evaluative criteria, readers will note a certain amount of repetition, such as equity in taxation, economic competitiveness and growth, simplification, transparency, and administrative improvement, and greater efficiency and tax neutrality.

1) Equity and Fairness

There are a number of inequities in the property tax regime—both related to the municipal component and the education component—that would be fixed in all scenarios. The elimination of the three-tiered education tax on non-residential property and a reduction in the effective tax rate differential between residential and non-residential property would significantly reduce these inequities. If harmonization (Option A) took place, there could potentially be an adverse impact on lower income taxpayers because this group of taxpayers would not benefit from the compression and rate reductions proposed for the personal income tax. But this too can largely be fixed through increased basic tax credits or the Low Income Tax Credit. The elimination of the corporate capital tax on large financial institutions would level the playing field between these institutions and other financial institutions—for example, credit unions.

There is always a difference of opinion regarding what attributes a personal income tax should have to be considered fair and equitable. The continuum runs from a "proportional" or "flat" tax (one tax rate with no

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basic exemption or credits) to the "more progressive" single rate tax (one tax rate with a basic exemption and credits) to a "highly progressive" tax (multiple tax rates and income brackets with a basic exemption and numerous credits). The personal income tax reform we have identified bridges the gap by compressing the tax structure from three rates to two, which retains an element of progressivity that is important to Saskatchewan taxpayers.

2) Tax Competitiveness

All of the reforms impact on this objective. Harmonization would likely have the biggest impact by reducing the cost of doing business to close to that of British Columbia and Alberta. But, the reduction in the non-residential property tax, the reduction in the corporate tax rates, and the reduction and compression of the personal income tax rate schedule would also increase the competitive ability of Saskatchewan businesses significantly. There is little doubt that the harmonization option would result in the greatest impact to the *marginal effective tax rate (METR)* on capital, however.

One calculation comes off data in a 2010 study (Business Council of Manitoba and the Asper School of Business 2010). The study suggests a 5.8 percentage point reduction in Saskatchewan's METR *(Figure 2)*. This is a significant improvement. The corporate tax rate reforms and reductions in Option B and Option C would also reduce the METR, but by smaller amounts. For example, we estimate the percentage point reduction for Option B to be between 2.0 and 3.0 percentage points (see *Appendix H*).

FIGURE 2: Estimated Marginal Effective Tax Rate (METR) on Capital Due to Provincial Sales Taxes, 2007

	BC	AB	SK	MB	ON
METR With a PST Sales Tax Regime	28.00	16.60	23.40	32.20	30.60
METR With a VAT Sales Tax Regime	18.00	16.60	17.60	20.40	19.40
Difference	**10.00**	**0.00**	**5.80**	**11.80**	**11.20**

Source: Derived by the Canada West Foundation from the Manitoba Business Council and the Asper School of Business, *Tax Commission Report*, 2010.

If the reforms regarding the education portion of the property tax are accepted, the result should also be significant. In dollar terms, it is

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approximately the same as the reduction in corporate capital taxes that took place in Saskatchewan between 2006 and 2009.

The following personal income tax rate schedules *(Figure 3)* also illustrate the increased tax competitiveness that comes from the reforms.

FIGURE 3: Personal Income Tax Statutory Rates After the Reforms

PIT Component	BC	AB	SK	MB
First Rate	5.06%	10.00%	9.00%	10.80%
Second Rate	7.70%	—	12.00%	12.75%
Third Rate	10.50%	—	—	17.40%
Fourth Rate	12.29%	—	—	—
Fifth Rate	14.70%	—	—	—
Second Rate Threshold	$35,859	—	$115,297	$31,000
Third Rate Threshold	$71,719	—	—	$67,000
Fourth Rate Threshold	$82,342	—	—	—
Fifth Rate Threshold	$99,987	—	—	—

Source: Derived by Canada West Foundation from the 2010 Provincial Budgets and Pricewaterhouse Coopers, *Tax Facts and Figures: Canada 2010*.

The following chart tracks the change in various business taxes (e.g., corporate income tax, corporate capital tax, provincial sales tax) that will

FIGURE 4: Corporate Regime with the Reforms at Maturity

Corporate Tax	BC	AB	SK (Opt-A)	SK (Opt-B)	SK (Opt-C)	MB
Corporate Income Tax: General	10.00%	10.00%	12.00%	9.00%	10.00%	11.00%
Corporate Income Tax: M&P	10.00%	10.00%	10.00%	9.00%	10.00%	11.00%
Corporate Income Tax: Small	0.00%	3.00%	4.50%	3.00%	3.50%	0.00%
Corporate Income Tax: Threshold	$500,000	$500,000	$500,000	$500,000	$500,000	$400,000
Provincial Sales Tax: Rate	7.00%	0.00%	7.00%	5.00%	5.00%	7.00%
Provincial Sales Tax: Type	HST	N/A	HST	PST	PST	PST
Corporate Capital Tax: General	NO	NO	NO	NO	NO	NO
Corporate Capital tax: Financial	NO	NO	NO	NO	NO	YES
Payroll Tax: General	NO	NO	NO	NO	NO	YES

Source: Derived by Canada West Foundation from the 2010 Provincial Budgets and Pricewaterhouse Coopers, *Tax Facts and Figures: Canada 2010*.

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occur under the reforms and make Saskatchewan's corporate tax climate more competitive. The changes do differ depending on if Option A, Option B, or Option C is chosen. Regardless, all options will certainly result in a more competitive set of taxes for Saskatchewan business *(Figure 4).*

3) Economic Growth

The economic impact of different types of taxes has been documented in numerous tax policy reports and discussion papers over the years (Chen and Mintz 2009; Government of New Brunswick, Department of Finance 2008; Mintz 2007a; BTRC 2005). One study by Finance Canada concluded that "taxes on saving and investment impose higher economic costs than taxes on wages and consumer spending," (Government of Canada, Department of Finance 2004). The taxation of business capital includes the sales taxes applicable on business inputs and the taxation of capital. Corporate income taxes ranked third among business taxes in the amount of positive economic activity created by tax reduction (BTRC 2005).

When it comes to reducing the corporate and business tax burden, Option A may well be the choice of most economists for achieving the greatest economic growth. However, it also joins with Option B and Option C. Both of those options also provide a solid foundation for significant growth in Saskatchewan, although the latter does involve administrative complexities associated with an input tax credit or point of sale exemption regime. Any changes to the capital cost allowance system would require federal approval because of the current tax collection agreement.

In considering the options, and which might be best for economic development, it is wise to keep Premier Brad Wall's recent observations in mind:

> *"He said there is a lesson to be learned specifically around the HST, which the Saskatchewan Party government has faced intermittent calls for—and occasionally considered. 'The decision of the BC government, that's up to them. But I'll tell you what the HST experience in both Ontario and BC has taught me … Accountants and others, business groups, will say this is good policy. But I don't know how almost a provincial political equivalent of civil war is ever good for an economy. It's such an incendiary issue in provinces where it's implemented,' said Wall. 'If we've got high corporate tax rates, if we've got high personal tax rates, if our small business threshold is too high—that's what we need to deal with."* (Premier Brad Wall in an interview with James Wood, reported in the *Saskatoon StarPhoenix*, June 19, 2010.)

The reforms relating to the personal income tax—in all scenarios—will also have an important impact on economic development. In 2008, there were significant changes to the personal income tax rate structure that reduced the number of taxpayers paying tax and enhanced the lower income tax credits, which provided significant benefit to those with low and moderate incomes. The personal income tax reform identified here pays increased attention now to middle and higher income earners. The reform should increase Saskatchewan's ability to attract highly skilled labour—including persons working in innovation and education—to Saskatchewan. This is an important element in increasing productivity, and consequently, economic growth.

4) Improved Simplicity, Transparency, and Administration

Many of the reforms would improve upon the simplicity, transparency, and visibility of the Saskatchewan tax regime. Perhaps the biggest improvements here would be to the administration of the property tax components. By eliminating many of the intervening steps—inclusion rates, mill rate factors, and tiered mill rates—the property tax will become much easier to understand and much easier to meaningfully compare with other jurisdictions. The tax paid by the various property classifications will also be more transparent. Harmonization (Option A) of the provincial sales tax with the GST pushes in the same direction, and would also lower administrative costs for government and the compliance costs for business that accrue from managing the differences between the provincial sales tax base and the federal tax base. The corporate income tax options (Option B and Option C) do the same. For example, reduction of the general corporate income tax rate from 10% to 9% (Option B) would reduce some of the administrative issues related to the taxation of net business income from manufacturing and processing. However, as the input credits relating to these organizations would remain, some complexity would still exist.

5) Improved Tax Neutrality

Many of the reforms would also improve the neutrality of the tax regime. For example, the property tax reforms would reduce the effective tax rate differential between residential and non-residential property owners. This not only improves equity among taxpayers, it also makes the property tax more efficient and economically neutral. Harmonization (Option A) would clearly result in a more consistent tax treatment of most goods and services, and better neutrality is also present in the various corporate income tax reforms envisioned in Option B and Option C. Those reforms would eliminate the special tax rate for manufacturing and processing activities, and would reduce the current gap between the general corporate income tax rate and the small business rate. To be sure, Option C has a downside—it is difficult to design and apply a sales tax input credit system or a point of sale credit system that can provide consistently equal treatment across all corporate actors and business taxpayers. Because a broad-based tax regime with few, if any, credits for special taxpayers or activities helps build competitiveness, the only new credits envisioned are the ones included in Option C.

6) Fiscally Responsible and Sustainable

The implementation schedule for the reforms runs over a relatively long period of time. This should give the provincial government sufficient time to phase-in the changes and accommodate the fiscal impact. This time allows the government to use the tax revenues produced by future economic growth over the next 10 years to help fund the reforms. If the time frame remains too short, there will be little harm done in stretching the implementation period out by one or two years. Any potential harm is reduced if taxpayers are aware of the government's long-term plans for tax reform.

In closing, readers will note that in identifying and developing the reforms, no commentary was made with respect to the expenditures of government. This is not an oversight. It is intentional. First, efforts at tax reform should not be dependent on the expenditure side of the fiscal equation. Second, our objective is to identify improvements to the tax framework that will enhance, rather than take away from, the government's ability to provide programs and services that are rightly the "the role of government."

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CHAPTER 8: TAX REFORMS AND THE FISCAL IMPACT ON GOVERNMENT

Introduction

The reforms, when taken as a package, will have a significant impact on the amount of taxes paid in Saskatchewan, and also carry a significant fiscal impact for government. As such, it is best if the reforms are phased-in over a period of time. The suggested implementation schedule proposes a phase-in of the reforms over nine years, starting in 2011/12 and ending in 2019/20. While that is a long period of time, it also reduces significantly the risk of unmanageable reductions in tax revenue and any adverse impacts upon the government's expenditure priorities. The implementation plan does not offer advice on how reforms could be financed and funded. Rather, it simply provides a period of time for government to consider and employ a number of financing scenarios. However, government decides to finance the reforms, they should not increase the debt of the General Revenue Fund.

Cost of the Reforms

The fiscal impact of the reforms is not significantly different than that of the major tax changes that have taken place in Saskatchewan since 1999, which include reductions in the personal income tax, the corporate income tax, and changes in the provincial sales tax. The total cost of the reform package is dependent upon the options identified as the means to lower the tax burden on capital investment—Option A, Option B, or Option C.

Reform #1: Education Property Tax (Residential and Non-residential)	
Action:	Transfer additional education funding away from the property tax to other provincial tax sources
Impact:	$55 million (reduced revenue)

Reform #2: Education Property Tax (Non-residential)	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties
Impact:	$135 million (reduced revenue)

Reform #3: **Municipal and Education Property Tax (Residential and Non-residential)**	
Action:	Assessment cycle reduced from 4 years to 2 years, and a program of administrative simplification
Impact:	$1 million (one-time expenditure for transitional purposes)

Reform #4: **Personal Income Tax**	
Action:	Move to a dual rate structure of 9% and 12%
Impact:	$525 million (reduced revenue)

Reform #5: **Municipal Property Tax (Non-residential properties in Regina and Saskatoon)**	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties
Impact:	$0 (funded through incremental growth in the property tax base over time)

Reform #6: **Financial Corporate Capital Tax**	
Action:	Eliminate
Impact:	$21 million (reduced revenue)

Reform #7: **Improve the competitiveness of Saskatchewan business (3 options)**	
OPTION A	
Reform:	Provincial Sales Tax
Action:	Harmonize PST with GST at a provincial rate of 7%
Impact:	$75 million (increased revenue)
OPTION B	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 9% and small business rate to 3%
Impact:	$232 million (reduced revenue)
OPTION C	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 10%, small business rate to 3.5%, provide PST offsets
Impact:	$150 million (reduced revenue)

	Average ANNUAL Impact	TOTAL Impact to 2019/2020
Reforms #1 to #6 including OPTION A	$73.5 million	**$662 million**
Reforms #1 to #6 including OPTION B	$107.6 million	**$969 million**
Reforms #1 to #6 including OPTION C	$98.5 million	**$887 million**

Implementation Schedule and Fiscal Impacts

The table on page 72 *(Figure 5)* shows the estimated fiscal impact of each reform, as well as the fiscal impact for each year, up to 2019/20. The different fiscal implications of Options A, B, and C are also shown.

Before drilling into the details, three points are worth noting at the outset. First, the fiscal impacts from 2011/12 to 2016/17 are the same regardless of Option A, Option B, or Option C. However, the costs for 2017/18 and 2018/19 differ. It is in these two years where the options for Reform #7 come into play, and each carries a different fiscal impact.

Second, the reforms are spread out across the implementation period so as to keep the annual fiscal impact from year to year as consistent as possible. Achieving complete alignment here is difficult, but there are only two significant exceptions. The first concerns the 2012/13 fiscal year, which has a small impact of $45 million. The second concerns the 2017/18 year. If Option B is selected, the fiscal impact in that year is estimated at $232 million, which is much higher than most other years, where the range falls in a relatively narrow band between $100 million and $150 million per year.

Third, the difference in the estimated fiscal impact of Option A (harmonization) and Option B (corporate income tax reductions) is largely explained by the fact that the former does not include a reduction in the corporate income tax rates while the latter does. In addition, even after factoring in additional sales tax credits for lower income groups and for new residential construction, harmonization at a rate of 7% would be a net revenue gain to the provincial treasury of approximately $75 million. If a decision to harmonize at a provincial rate of 5% were made, there would be a net cost to the treasury of approximately $350 million. Clearly, there are a number of combinations that are possible between all of the options for

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Reform #7. However, the three options we have identified likely provide government with the best economic and political alternatives.

With those three points in mind, it is helpful to walk through the implementation schedule by fiscal year, noting the costs and the changes that would occur.

FIGURE 5: Implementation Schedule and Fiscal Impact, 2011/12 to 2019/20 (millions)

							Opt. A	Opt. B	Opt. C	Opt. B/C	
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2017/18	2017/18	2018/19	2019/20
Reform #1: *Education Property Tax* Lower Education Property Tax	$55										
Reform #2: *Education Property Tax* Cap Differential on Non-Residential	$45	$45	$45								
Reform #3: *Education & Municipal Property Tax* Assessment Cycle & Simplify	$1										
Reform #4: *Personal Income Tax* Dual Rate Tax of 9% and 12%			$125	$100	$75	$75	$150			$150	
Reform #5: *Municipal Property Tax* Cap Differential on Non-Residential											
Reform #6: *Financial Corporate Capital Tax* Eliminate the Tax											$21
Reform #7: OPTION A *Provincial Sales Tax* Harmonize with the GST at 7%							($75)				
Reform #7: OPTION B *Corporate Income Tax* 9% and 3%								$232			
Reform #7: OPTION C *Corporate Income Tax* 10% and 3.5% and PST Offsets									$150		
TOTAL	**$101**	**$45**	**$170**	**$100**	**$75**	**$75**	**$75**	**$232**	**$150**	**$150**	**$21**

Source: Developed by the Canada West Foundation.

Note: The final stage of the personal income tax reform is estimated at $150 million, and would occur in 2017/18 if Option A is selected. If Option B or Option C is selected, the final stage of the personal income tax reform will be postponed to 2018/19.

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Fiscal Impact by Implementation Year

- In 2011/12, an increased portion of education funding, along the lines discussed in 2009, is transferred away from the property tax and to the General Revenue Fund. The cost of this move is $55 million. At the same time, the differential between non-residential properties and residential properties in the education property tax starts to move down towards 1.43. Completing this reform will cost $135 million, but it can occur in three stages. The first stage of the reform has an estimated cost in 2011/12 of $45 million. The two-year cycle of re-assessment for the municipal and education property tax can also begin at this time. The cost of that reform is estimated at $1 million. This cost does not take the form of a reduction in revenue, but is a one-time increase in expenditure. Total fiscal impact for the year is $101 million.

- In 2012/13, another drop in the differential within the education property tax occurs. This carries a fiscal impact of $45 million for the year. This is the only reform for this fiscal year.

- In 2013/14, the third drop in the education property tax differential takes place, finalizing the fiscal impact with another $45 million (total cost of this reform is $135 million). In 2013/14, the first stage of the personal income tax reform also begins. This first stage will see the rates change from the current 11%, 13%, and 15% to a two rate structure of 10% and 13%. All taxable income under the current threshold for the 13% rate in the existing system ($40,354 for 2010) is taxed at the 10% rate, while any amount over the threshold is taxed at the second rate of 13%. The cost of this move is $125 million. Total estimated fiscal impact for 2013/14 is $170 million.

- In 2014/15, the second stage of the reform to personal income tax would occur. While the lower rate of 10% remains the same, the top rate is dropped to 12%. The income floor to which the higher rate applies is also unchanged, although it will be indexed to inflation according to current practice with the Saskatchewan personal income tax. The estimated cost of the second stage is $100 million.

- In 2015/16, the third stage of the personal income tax reform occurs. The rates will stay the same, but the income threshold to which the higher rate applies will move upward. The goal at the end of the personal income tax reform is to have the second rate applied at the same income threshold to which the top rate of 15% applies today (adjusted for inflation). For 2010, this is $115,297. In 2015/16, the threshold takes its first increase upward. The cost of this measure is estimated at $75 million.

- In 2016/17, the fourth stage of the personal income tax reform occurs as the final threshold for the second rate is reached. Again, this threshold is currently at $115,297, but it will be slightly higher in 2016/17 because of indexing. This stage carries an estimated fiscal impact of $75 million.

- In 2017/18, there are three fiscal impact scenarios, and each is different depending on if Option A, Option B, or Option C is pursued. If Option A is selected—harmonization—then the provincial sales tax is joined with the GST at a provincial rate of 7%. The change will result in an additional $75 million in tax revenue. To offset the shifting tax burden between business and individuals that will result from harmonization, the bottom rate of the personal income tax will be immediately reduced from 10% to 9%. This is the fifth stage of the changes to the personal income tax, and will save taxpayers $150 million. It will also complete the personal income tax reform program. The total net fiscal impact for the year is estimated at $75 million.

- If Option B is selected, the general corporate income tax rate would fall from 12% to 9% and the small business rate would fall from 4.5% to 3%. These two changes have a significant fiscal impact totaling $232 million. With that in mind, the fifth stage of the personal income tax will not take place, but be postponed until a later point in time. It would be very difficult to accomplish both in the same year. Thus, the total estimated fiscal impact for 2017/18 with Option B would be $232 million. (It might also be possible, and perhaps even desirable, for Option B to be implemented over a two year time period.)

- If Option C is selected, the general corporate income tax rate would fall from 12% to 10%, and the small business rate would fall from 4.5% to 3.5%. The combined fiscal impact here would total $90 million. In an effort to lessen the impact of provincial sales tax on capital investment, a set of sales tax input credits, point of sale exemptions, or other changes such as an enhanced capital cost allowance system will come into play. These will be expanded beyond the manufacturing and processing sector to a wider array of corporations. The total cost here is pegged at $60 million, raising the fiscal impact for the year for Option C to $150 million. Again, the fifth stage of the personal income

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tax reform—lowering the first rate from 10% to 9%—will have to wait.

- In 2018/19, if Option A proceeds, no changes are anticipated. However, if Option B or C is selected, then 2018/19 will be the year to complete the personal income tax reforms, with the lowest rate moving from 10% to 9%. The cost of this change will be $150 million.
- In 2019/20, the reforms are completed, capped off by elimination of the financial corporate capital tax. The fiscal impact here is small, at only $21 million. At this point, the hard work is done, and Saskatchewan emerges with a more competitive tax system.

Reasons for a Long Implementation

Given the significance of the reforms and their fiscal impact, the best approach would be to phase them in over a relatively long period of time that stretches out across the next decade. This long implementation will help facilitate a number of important objectives.

First, it provides government with sufficient time to explore the optimal ways to fund the reforms, and also allows the fiscal impact to be evenly spread out across the coming years.

Second, it provides the economy with sufficient time to grow, expand, and beneficially adapt as each reform unfolds. If future growth and expansion of the Saskatchewan economy is indeed on a new growth track, then over time this itself will provide some of the necessary funding through an enhanced tax base. Economic modeling and forecasting would certainly help clarify the extent to which this might occur. It would also help clarify the extent to which the reforms themselves might boost economic growth and be self-financing. However, all of that was outside the scope of this effort.

Third, the long implementation period provides government with time to consider and reflect upon some of the more difficult options—particularly those affecting business and capital investment. This is a particularly strong advantage of a longer implementation horizon. The options identified in the *Framework* include harmonization of the PST with the GST, significantly lowering corporate income tax rates, or lowering corporate rates less aggressively and marrying that with mechanisms to offset the impact of provincial sales tax. The long time frame allows government time to monitor how harmonization, for example, works out in Ontario and British Columbia. It allows government time to consider the changes it would like to see in any potential harmonization agreement so that the process fits the unique circumstances and preferences of Saskatchewan.

Fourth, then, the implementation schedule places the easier reforms up front, and leaves the more difficult and potentially contentious reforms for later. This allows progress on an agenda for change to get underway, even if all the details are not fully fleshed out.

While the long implementation period carries all of these benefits, there are downsides as well. Perhaps the most significant is how the implementation schedule will extend past the term of the current government, and perhaps the next one as well. Thus, the reforms do run the risk of being picked up with great enthusiasm by one government, only to lose traction upon the election of another government that might be less enthusiastic. Building broad popular support for the changes can help mitigate any such eventuality, even if the prospect never disappears entirely from view.

Fiscal Impact by Taxpayer Classification

In stepping through the implementation, it is important to understand that the initial impact differs between individual and corporate taxpayers. For example, harmonization under Option A results in a smaller revenue loss to the province, but does so because of the additional sales tax being paid by individual taxpayers. This is part of the "shift" required to improve Saskatchewan's tax mix. At the same time, it should be remembered that the harmonization under Option A will also be immediately accompanied by a reduction in the personal income tax rate schedule, an enhanced Low Income Tax Credit, and a new credit for residential home purchases. These serve as valuable offsets for individual personal income taxpayers who may find themselves paying more sales tax. (The initial impact may also be different than the long-term impact. Under Option A, for example, consumer prices may fall as businesses react to the tax change. This would lower costs to consumers and help offset the initial impact.) Option B, on the other hand, has the initial tax reductions allocated at $390 million for corporate taxpayers and $580 million for individual taxpayers. But, the option also entails a significantly higher fiscal cost to the provincial treasury. One attractive feature of Option B is that the final corporate and personal income tax rates will be the same at 9%. The reform would establish an integrated system for incorporated and unincorporated business income, as well as a good portion of individual income.

A Final Word

The estimates of the fiscal impacts above are exactly that—estimates. They are based on information that was available in the spring of 2010, but they do not take into account changes in the value of the dollar, adjustments that would be required because of the taxation year differing from government's fiscal year, structural changes that might occur in the provincial economy, increased economic growth, beneficial changes in the behaviour of both individual and corporate taxpayers, and less tax "leakage" to other jurisdictions that have lower rates of tax (Guillemette and Mintz 2005).

Furthermore, Saskatchewan has been able to reduce its tax rates in the past without sacrificing the larger provincial revenue picture. In 1999/00, the government collected $605 million in corporate taxes at a general rate of 17%, a small business rate of 8%, and a general corporate capital tax levied at 0.6%. Provincial GDP in that year was $30.8 billion. In 2010/11, the budget is forecasting $1.3 billion in corporate tax revenue with a general rate of 12%, a small business rate of 4.5%, and no general corporate capital tax. Estimated GDP for this year is about $57.7 billion. Despite the tax rate reductions, corporate tax revenue between the two periods grew by 107% while provincial GDP grew by 87%.

Given the prospects for future growth in Saskatchewan across the next decade—the great opportunity—and the fact that tax reform and reduction can lever even additional rates of growth, there is every reason to suspect that this package of reforms is quite affordable, with the fiscal impacts lower than estimated. In the past, the Saskatchewan economy has reacted favourably to changes in the tax structure and rates, and there is no reason to think that this has changed (BTRC 2005).

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CHAPTER 9: TAX REFORMS AND THE IMPACT ON TAXPAYERS

Introduction

This chapter illustrates the impact of the personal income tax reform and reduction on individuals and families at different levels of income, and also explores the potential effect of harmonizing the provincial sales tax. To be sure, changes in corporate taxes also impact individuals. Although these taxes are paid by corporations, they also impact individuals and families through lower wages, lower dividends and payments to shareholders, and even higher prices for consumer goods. Because all of that is well-known and acknowledged across the larger policy community, the focus here will stay on the direct impacts of personal income taxes and the provincial sales tax.

FIGURE 6: Savings in 2010 Associated by Moving to Dual Rate PIT
Results After the First Two Stages of PIT Reform (10% and 12% with a $40,354 Threshold)

Family Income	Current PIT (2010)	Dual Rate PIT (2010)	Total Tax Savings	Savings as a % of Current Tax	Savings as a % of Income
Single Individual					
$15,000	$91	$82	$9	9.89%	0.06%
$25,000	$1,117	$1,016	$101	9.04%	0.40%
$35,000	$2,144	$1,949	$195	9.10%	0.56%
$50,000	$3,904	$3,567	$337	8.63%	0.67%
$75,000	$7,154	$6,567	$587	8.21%	0.78%
$100,000	$10,404	$9,567	$837	8.04%	0.84%
$200,000	$25,099	$21,567	$3,532	14.07%	1.77%
Dual Income Family (2 Children)					
$15,000	$0	$0	$0	0.00%	0.00%
$25,000	$0	$0	$0	0.00%	0.00%
$35,000	$0	$0	$0	0.00%	0.00%
$50,000	$816	$742	$74	9.07%	0.15%
$75,000	$3,479	$3,171	$308	8.85%	0.41%
$100,000	$6,444	$5,894	$550	8.54%	0.55%
$200,000	$19,425	$17,785	$1,640	8.44%	0.82%

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministry of Finance, 2010.

Tax Savings From the Personal Income Tax Reform

The impact of the personal income tax reform can be identified and measured by plotting the expected tax savings that will accrue to various taxpayers at particular income levels. The Saskatchewan Ministry of Finance provided this information in Spring 2010. The data speak to savings associated with various stages of the personal income tax reform.

Figure 6 on the previous page shows the personal income tax savings for a single individual and a dual income married couple with two children after the first two stages of the personal income tax reform. The data compare the current system in 2010 with a changed system comprising the dual rate structure of 10% and 12%, with the second rate applying to taxable income in excess of $40,354. In effect, these are the tax savings that would accrue in 2010 if the new dual rate system were in play for the 2010 tax year.

The third and fourth stages of the reform to personal income tax would see the income threshold for the second rate moving upward from $40,354 to $115,297. The impact of those two stages are shown in *Figure 7*.

FIGURE 7: Savings in 2010 Associated by Moving to Dual Rate PIT
Results After the Third and Fourth Stages of PIT Reform (10% and 12% with a $115,237 Threshold)

Family Income	Current PIT (2010)	Dual Rate PIT (2010)	Total Tax Savings	Savings as a % of Current Tax	Savings as a % of Income
Single Individual					
$15,000	$91	$82	$9	9.89%	0.06%
$25,000	$1,117	$1,016	$101	9.04%	0.40%
$35,000	$2,144	$1,949	$195	9.10%	0.56%
$50,000	$3,904	$3,374	$530	13.58%	1.06%
$75,000	$7,154	$5,874	$1,280	17.89%	1.71%
$100,000	$10,404	$8,374	$2,030	19.51%	2.03%
$200,000	$25,099	$20,068	$5,031	20.04%	2.52%
Dual Income Family (2 Children)					
$15,000	$0	$0	$0	0.00%	0.00%
$25,000	$0	$0	$0	0.00%	0.00%
$35,000	$0	$0	$0	0.00%	0.00%
$50,000	$816	$742	$74	9.07%	0.15%
$75,000	$3,479	$3,078	$401	11.52%	0.53%
$100,000	$6,444	$5,501	$943	14.63%	0.94%
$200,000	$19,425	$15,554	$3,871	19.93%	1.94%

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministry of Finance, 2010.

FIGURE 8: Savings in 2010 Associated by Moving to Dual Rate PIT
Results After the Fifth Stage of PIT Reform (9% and 12% with $115,2974 Threshold)

Family Income	Current PIT (2010)	Dual Rate PIT (2010)	Total Tax Savings	Savings as a % of Current Tax	Savings as a % of Income
Single Individual					
$15,000	$91	$74	$17	18.68%	0.11%
$25,000	$1,117	$914	$203	18.17%	0.81%
$35,000	$2,144	$1,754	$390	18.19%	1.11%
$50,000	$3,904	$3,037	$867	22.21%	1.73%
$75,000	$7,154	$5,287	$1,867	26.10%	2.49%
$100,000	$10,404	$7,537	$2,867	27.56%	2.87%
$200,000	$25,099	$19,078	$6,021	23.99%	3.01%
Dual Income Family (2 Children)					
$15,000	$0	$0	$0	0.00%	0.00%
$25,000	$0	$0	$0	0.00%	0.00%
$35,000	$0	$0	$0	0.00%	0.00%
$50,000	$816	$668	$148	18.14%	0.30%
$75,000	$3,479	$2,771	$708	20.35%	0.94%
$100,000	$6,444	$4,951	$1,493	23.17%	1.49%
$200,000	$19,425	$14,055	$5,370	27.64%	2.69%

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministry of Finance, 2010.

The effect of the fifth and final stage is shown above *(Figure 8)*.

The fifth and final stage of the personal income tax reform would see the initial rate falling from 10% to 9%, with the income threshold for the second rate unchanged at $115,297 (although it would be slightly higher after the indexing that would continue to occur as the reform progresses). The year in which this fifth stage becomes effective is different, and depends on if the government pursues Option A, B, or C. If Option A is selected in 2017/18, then the fifth stage will kick in at the same time, and the first rate will fall from 10% to 9%. If Option B or Option C is selected in 2017/18, then the fifth stage would occur a year later in 2018/19.

To put these changes in context, they can be set against the recent round of reductions in personal income tax that occurred in 2008. Those changes

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resulted in an increase to a number of personal tax credits, including an increase in the Low Income Tax Credit (LITC). The table below *(Figure 9)* combines the 2008 changes with the reforms identified here, when they reach full maturity in 2017/18 or 2018/19 depending on the circumstance.

FIGURE 9: Combined Personal Income Tax Savings
Savings of the 2008 Reductions and the New Dual Rate PIT

Family Income	2008 PIT Reduction	2008 LITC Change	2010 Dual Rate PIT	Total Tax Savings	Savings as a % of Income
Single Individual					
$15,000	$440	$108	$17	$565	3.77%
$25,000	$440	$108	$203	$751	3.00%
$35,000	$440	$21	$390	$851	2.43%
$50,000	$440	$0	$867	$1,307	2.61%
$75,000	$440	$0	$1,867	$2,307	3.08%
$100,000	$440	$0	$2,867	$3,307	3.31%
$200,000	$440	$0	$6,021	$6,461	3.23%
Dual Income Family (2 Children)					
$15,000	$0	$222	$0	$222	1.48%
$25,000	$0	$343	$0	$343	1.37%
$35,000	$718	$420	$0	$1,138	3.25%
$50,000	$1,320	$227	$148	$1,695	3.39%
$75,000	$1,320	$0	$708	$2,028	2.70%
$100,000	$1,320	$0	$1,493	$2,813	2.81%
$200,000	$1,320	$0	$5,370	$6,690	3.35%

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministry of Finance, 2010.

A number of important points emerge from all the comparisons above. Clearly, the dual rate tax provides a larger benefit for those with higher incomes. In other words, the tax savings as a percentage of income are generally more for higher income earners. But, that is not the end of the story. The reforms anticipated here should not be divorced from the impact of the 2008 changes—changes that were more beneficial for low and moderate income earners than higher income earners. When the personal income tax reforms identified here are *combined* with the changes that

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occurred in 2008, the overall tax savings are very reasonably distributed for most taxpayers at most income levels *(Figure 9)*. The only significant exception here would be the dual income family with two children. At lower levels of income, these taxpayers will see less benefit. At high levels of income, they will see significant benefit. However, this does not imply a bad outcome. Lower income taxpayers in this circumstance already pay little or no tax at all, and are thus the least likely to benefit from any reduction in the personal income tax. With respect to the higher income dual families with two children, the incremental savings are not completely out of line with other taxpayers, and are even lower than the single individual earning $15,000. What is more, if Option A (harmonization) is pursued, this advantage could be reduced or adjusted through an enhancement of the Low Income Tax Credit. If Option A is not picked up, then the government may want to review the current Low Income Tax Credit and its impact on incomes around $50,000.

A More Competitive Personal Income Tax

The impact on taxpayers is a huge concern, and our desire is to ensure all taxpayers win. But the objective is also to build a more competitive system, particularly against British Columbia and Alberta. The following tables (on the next page) show how the current personal income tax bill in Saskatchewan compares to BC and Alberta *(Figure 10)* and how the dual rate system compares once all stages are implemented *(Figure 11)*. The model assumes that no changes are forthcoming in BC or Alberta.

The data show that the reform stands to dramatically improve the competitiveness of Saskatchewan's personal income tax. While the current Saskatchewan system is already competitive with Manitoba, the reform will improve Saskatchewan's position relative to British Columbia and Alberta. First, under Saskatchewan's current system for 2010, single taxpayers in both British Columbia and Alberta pay less tax across all levels of income, without exception. The personal income tax reform identified in the *Framework* would narrow that gap, and more important, result in some single taxpayers paying less tax in Saskatchewan than either British Columbia and Alberta, particularly at the higher income levels. This will incent educated and younger people, making it easier to attract these individuals to Saskatchewan.

Second, the changes with respect to dual income families with children are striking. Under Saskatchewan's current system for 2010, these taxpayers at lower levels of income generally pay less tax in Saskatchewan than in BC

FIGURE 10: Interprovincial Comparison of Personal Income Tax
2010 Results Based on the Current Saskatchewan PIT System

Family Income	Current SK PIT (2010)	Current BC PIT (2010)	SK Difference from BC	Current AB PIT (2010)	SK Difference from AB
Single Individual					
$15,000	$91	$0	$91	$0	$91
$25,000	$1,117	$491	$626	$668	$449
$35,000	$2,144	$1,105	$1,039	$1,601	$543
$50,000	$3,904	$2,199	$1,705	$3,026	$878
$75,000	$7,154	$4,216	$2,938	$5,526	$1,628
$100,000	$10,404	$7,158	$3,246	$8,026	$2,378
$200,000	$25,099	$21,858	$3,241	$18,026	$7,073
Dual Income Family (2 Children)					
$35,000	$0	$174	($174)	$0	$0
$50,000	$816	$869	($53)	$1,134	($318)
$75,000	$3,479	$2,459	$1,020	$3,372	$107
$100,000	$6,444	$4,189	$2,255	$5,794	$650
$200,000	$19,425	$14,524	$4,901	$15,753	$3,672

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministry of Finance, 2010.

FIGURE 11: Interprovincial Comparison of Personal Income Tax
2010 Results Based on the New Dual Rate PIT in Saskatchewan at Maturity

Family Income	Dual Rate SK PIT (2010)	Current BC PIT (2010)	SK Difference from BC	Current AB PIT (2010)	SK Difference from AB
Single Individual					
$15,000	$74	$0	$74	$0	$74
$25,000	$914	$491	$423	$668	$246
$35,000	$1,754	$1,105	$649	$1,601	$153
$50,000	$3,037	$2,199	$838	$3,026	$11
$75,000	$5,287	$4,216	$1,071	$5,526	($239)
$100,000	$7,537	$7,158	$379	$8,026	($489)
$200,000	$19,078	$21,858	($2,780)	$18,026	$1,052
Dual Income Family (2 Children)					
$35,000	$0	$174	($174)	$0	$0
$50,000	$668	$869	($201)	$1,134	($466)
$75,000	$2,771	$2,459	$312	$3,372	($601)
$100,000	$4,951	$4,189	$762	$5,794	($843)
$200,000	$14,055	$14,524	($469)	$15,753	($1,698)

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministry of Finance, 2010.

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or Alberta, but pay more in Saskatchewan at higher levels of income. The move to a dual rate tax results in a measure of equalization. All of these families—regardless of income level—will pay less tax in Saskatchewan than they do in Alberta. Frankly, this is transformational tax change. If the impact of a dual rate tax will help *attract* singles to Saskatchewan, then the impact of the dual rate tax on families will help *keep* them in Saskatchewan.

Provincial Sales Tax

A harmonized sales tax—only one of the options that has been identified—continues to draw significant debate across Saskatchewan. In addition to the tax savings that would accrue with reform to the personal income tax, we wanted to explore, at least tentatively, some of the potential impacts of harmonization. If harmonization were to proceed, we have suggested a 7% rate, along with an immediate reduction in the first rate of personal income tax from 10% to 9% as a partial offset, an enhanced Low Income Tax Credit, and a new credit for the purchase of a new residential home. Even with these offsets, the reform would result in a shifting of the tax mix, but one that would be beneficial for the long-term prospects of the Saskatchewan economy.

In exploring issues of tax incidence related to a harmonized sales tax, the expected tax implications were estimated for a family with two children at various levels of income. These estimates *(Figure 12)* are based on various sources (Louk 2010). The estimates are helpful, but should be viewed as "rough." The allocation of the provincial portion of any HST between income groups is very difficult because of how the structure of the provincial sales tax has changed since 2005. Further, it is difficult to assess how the total sales tax burden would eventually shift to the final consumer.

FIGURE 12: Estimated Impact of Harmonization at a 7% Provincial Rate
Dual Income Family With Two Children

Family Income	Estimated Tax Increase
$10,000 to $19,999	$469
$20,000 to $34,999	$731
$35,000 to $49,999	$796
$50,000 to $100,000	$928

Source: Derived by Canada West Foundation from Louk, Mony, *Saskatchewan's Harmonized Sales Tax*, 2010.

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The comparison—rough as it is—shows that all family types would pay more sales tax under a harmonized system, with the amount payable increasing as income increases. But the amounts here are also the "gross" increase, and do not include an enhanced Low Income Tax Credit and offsets for residential home purchases. The harmonization option identified here would see an enhanced Low Income Tax Credit and a new credit for new residential home purchases. Also, no assumptions have been made with respect to any transitional funding that would be provided from the federal government to assist with the move to a harmonized sales tax.

To be sure, harmonization need not occur at the 7% level, and any additional tax payable could be significantly reduced if the harmonized rate were left at the 5% rate that currently prevails for the provincial sales tax. However, this would also entail a significant revenue loss to the provincial treasury—around $350 million after providing the necessary enhancements to the Low Income Tax Credit and a credit for the purchase of new residential housing. Leaving the rate at 5% would also blunt the beneficial change to the tax mix. The 7% rate would still be one of the lowest sales tax rates in Canada, it scoops up the 2.0 percentage point reduction in the federal GST, and Saskatchewan residents themselves have paid up to 9% in sales tax in the past. Based on these considerations, a 7% rate would appear to be a reasonable target under any potential harmonization scenario.

While Option A is within the fiscal capacity of the province, it does carry numerous impacts in its wake. If pursued in isolation, harmonization would be very difficult, particularly given the potential impact on lower income groups and the shift in the tax burden from business to consumers. As such, this reform should not be viewed in isolation from reforms identified elsewhere.

Under harmonization, those with higher incomes would have a higher tax load, but over the long-term, a portion of that increase would be offset through the reform in the personal income tax, particularly the increase in the income threshold at which the second personal income tax rate comes into effect. The situation with low income earners is perhaps more challenging. They will pay more sales tax relative to their total income, and this is compounded by the fact that the lowest income earners stand to see less benefit from any compression of the personal income tax because many pay little personal income tax or are already exempt.

The concerns that need to be addressed in any long-term discussion over harmonization relate to the potential effect on consumer prices, the impact on lower income groups, and the impact on new home investment. There are also other misunderstandings—if not myths—that could be addressed. Perhaps more important than all of that is simply the need for a much better pool of research and data to inform the debate in Saskatchewan.

Given the uncertainty that surrounds tax incidence under a harmonization scenario, the province could provide valuable assistance in developing the necessary research and knowledge to better inform the matter. As stated earlier, governments seeking a competitive tax regime need to continually monitor developments in tax policy and make adjustments where necessary. Since the harmonization debate will likely not go away anytime soon, putting some resources to better understanding the issue would appear to make more than a little sense.

CHAPTER 10: SURVEY RESULTS

Introduction

In June and July of 2010, the Canada West Foundation conducted two surveys. Through the first survey, the Foundation invited Saskatchewan residents to complete an online questionnaire. Almost 800 of these surveys were completed. Through the second survey, the Foundation engaged its network of economic experts in Saskatchewan, including the *Western Economic Expectations Survey Respondents (WEESR)*. This survey—an expanded version of the first survey—drilled into tax issues in more detail. On a regular basis, the Foundation invites the *WEESR* group to complete a detailed questionnaire regarding economic developments and expectations in Saskatchewan. Similar groups exist in British Columbia, Alberta, and Manitoba. Over 120 respondents participated in the second survey. Members of the Foundation's *WEESR* network are "opinion leaders" on economic issues. Tapping their views supplements the broader public opinion data.

The two surveys provide important contextual perspective on our research, and also helped inform the reforms that have emerged. This section reports on the results of the two surveys, paying particular attention to those research themes and tax reforms that appear to align well with public opinion, and those that appear to enjoy less support. *(A copy of both surveys and the results are included in Appendix J).*

The Importance of Tax Policy

Survey respondents were first asked about the importance of tax policy in building a competitive economy and attracting and retaining people and investment to Saskatchewan:

- Virtually all respondents said the tax system is important to Saskatchewan's competitiveness (93%), that the tax system is important for attracting and retaining people and investment (93%), and that a competitive tax system should be an important policy priority for the Saskatchewan government (93%).
- When asked to select the three most important factors in attracting and retaining people and investment, 56% cited a competitive tax regime. This was the most frequently mentioned option, and the only option to be cited by a majority of respondents. However, 44%

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also cited abundant and varied career opportunities, 42% said a low cost of living, 37% said quality public services, and 32% said public infrastructure.

- In the *WEESR* survey, 62% agreed that the *New West Partnership* makes it imperative that Saskatchewan has a competitive tax system.

Research has shown that economic competitiveness is a function of many factors, including access to resources, proximity to markets, skilled labour, career opportunities, cost of living, technological readiness, and public infrastructure. The list goes on. Tax policy, tax levels, tax structure, and the tax mix are not the only factors that hit on competitiveness. Yet, tax policy is one of the single most important economic levers for a provincial government—it is one of the only means whereby a province can directly influence future economic prospects. The surveys confirm this larger contextual consideration that we have drawn. What is more, many of the *WEESR* respondents agree that the importance of tax policy is growing in light of the *New West Partnership* agreement.

Tax Levels

Comparable levels of taxation are one consideration in building a competitive tax policy. The surveys asked respondents what they thought of the tax system and the level of taxes in Saskatchewan:

- Almost three-quarters of all respondents said the tax system in Saskatchewan has improved in the last 10 years (73%). In addition, a majority said that tax levels in Saskatchewan have gone down in the last 10 years (55%).

- On the other hand, 63% also said that the tax load in Saskatchewan is higher than in other provinces, and 64% said taxes in Saskatchewan are too high for the services that are received.

There is widespread agreement that the tax system in Saskatchewan is better today than it was 10 years ago. A majority also believes that taxes have gone down. In short, Saskatchewan residents are aware of many of the tax changes since 2000, which include reductions in personal income tax, corporate taxes, and the provincial sales tax. However, all of that is tempered by the fact that almost two-thirds of respondents believe that Saskatchewan's taxes are still higher than other provinces. This is certainly true with respect to British Columbia and Alberta, but not when compared to other provinces. In some sense, then, the public is aware of improvements, but may not appreciate the extent of those improvements relative to other provinces and how much progress has been made.

The fact that almost two-thirds of respondents said taxes are too high relative to the services they receive is an interesting, but not entirely surprising result. In many ways, that tends to be a chronic complaint, and it is an easy sentiment to express. Anticipating this result, the survey pressed respondents to choose between "lowering taxes at the cost of reducing services" or "increasing services at the cost of higher taxes." This question forced respondents to make a critical trade-off:

- When it came to lower taxes, 41% said they wanted lower taxes even if that meant a reduction in public services. When it came to more public services, 19% said they wanted more services even if that meant higher taxes. Satisfied with the status quo were 40%, who wanted to keep the current balance between taxes paid and services received.

In forcing the choice, the survey gets to the root of some basic sentiment. When it comes to taxes in Saskatchewan, the political dynamic is where the majority (60%) is either satisfied with the status quo or would pay even more taxes to get more services. On the other hand, 40% want lower taxes even if that meant a reduction in public services. Opinion on the question is fairly evenly divided, and this presents a certain political challenge. That challenge is to bridge the gap—securing a more competitive tax system, a better tax mix, and lower levels of taxation without sacrificing valued public services. This objective puts a premium on taxing "smarter" and "reforming" the right taxes as a way to also tax "less."

Tax Mix and Tax Structure

Research has shown that the types of taxes used, the structure of those taxes, and how those taxes are administered and employed are just as important a consideration as overall tax levels. In short, some taxes are simply not as bad as other taxes. The survey probed the view of respondents on this matter as well:

- Over four in five respondents (84%) said a tax system can be improved by changing the taxes that are used, even if the total tax revenue collected stays the same. In addition, a majority of respondents (61%) said that a government can impose higher taxes than its competitors, but the economy might be no worse off depending on which taxes are being used.

- A majority of *WEESR* respondents (59%) agreed that government should be more concerned with the tax mix and less concerned about the total amount of taxes collected.

A relatively strong majority of respondents confirm that the tax mix is an important consideration, and may be even more important than the overall tax level. With that recognition in hand, the survey then turned toward exploring the public's appetite for change.

Are Changes to Saskatchewan's Tax System Needed?

After probing opinions on tax levels, recent improvements to the tax system, and the tax mix, the survey asked respondents whether they thought further changes were required:

- Virtually all respondents (95%) agreed that some measure of change is still needed to Saskatchewan's tax system. There was, however, disagreement over the extent of changes required. One-third said major changes were required (32%), while almost two-thirds said minor adjustments were required (63%).
- Three-quarters of all the *WEESR* respondents agreed that Saskatchewan's tax system has become more competitive, but more still needs to be done (77%). A similar number disagreed with the proposition that Saskatchewan's tax system is already competitive enough, and no further change is required (74%).

The results of the survey show a strong appetite for further improvements to Saskatchewan's tax system. There is widespread agreement that the system can be made more competitive. However, there is less consensus concerning the scope or extent of the changes required. About one-third of all respondents expressed a desire for major change. About two-thirds felt the changes could be less ambitious. What this means for the scope and depth of the reforms identified here is not entirely clear. On the one hand, the reform package will address a clear sentiment of many Saskatchewan residents—change is required. For others, the package might appear too aggressive. At the end of the day, much will turn on how public opinion lines up with the individual reforms.

What Changes are Required?

If tax levels are too high, which taxes should be reduced? If the tax mix can be improved, which taxes should be emphasized over others? If change is required, in what direction should that change take off? In probing these questions, the survey reached out in several directions. Respondents were asked what taxes they thought were better for the economy, what taxes they would reduce if given a choice, and what taxes were best and worst. The survey then pressed respondents again to select one of several options for a new tax mix:

- Almost half of all respondents agreed that consumption taxes were best for the economy (48%). Only one-quarter believed that personal and corporate income taxes were best for the economy (23%).
- Given a choice to reduce any one tax, 41% chose the personal income tax, 26% chose the education property tax, and 8% chose the municipal property tax. Only 12% chose to reduce the provincial sales tax, while 9% chose to reduce the corporate income tax.
- If taxes had to be increased, and given a choice of which to tax to increase, 32% chose the provincial sales tax, and 24% chose the corporate income tax. Only 6% chose the personal income tax.
- When asked what they personally thought was the best tax on individuals, half said the provincial sales tax (48%). An equal number said the personal income tax (45%). The education property tax received the most mentions as the worst tax (47%). Relatively few people saw the provincial sales tax as the worst (15%). Property taxes combined—municipal and education—were mentioned by the most respondents as the worst taxes (61%).
- When asked what they personally thought was the best tax on business, corporate income tax was mentioned most frequently (57%). Again, the education property tax emerged as the least popular tax, being mentioned by almost half of respondents as the worst tax on business (46%). Again, respondents were most likely to mention municipal and education property tax as the worst business tax (60%).
- When asked what they personally thought was the best consumption tax, provincial sales tax was mentioned by 38% of respondents and the tobacco tax was mentioned by 39%. The fuel tax was mentioned as the worst consumption tax by 44% of respondents and the provincial sales tax was mentioned as the worst by 37%.
- Respondents were also asked in what direction the tax mix should go. No clear direction emerged as opinion was split across virtually all options. For example, 31% said sales taxes should be increased

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relative to personal and corporate income taxes. Another 31% said corporate income taxes should increase relative to personal income and provincial sales tax. Another 32% said the mix should be left alone. The only clear direction here is that only 7% wanted to see an increase in the personal income tax over the provincial sales tax and the corporate income tax.

- Respondents were also asked to give reasons for their preferences—why, for example, they chose to reduce one tax over another, or increase one tax over another. While respondents selected from a wide variety of reasons, many answers landed on two considerations—equity or fairness and the economic impact. When asked to select a reason for reducing a tax, 66% said the move was equitable or the reduction would be better for the economy. When asked their reasons for increasing a tax, 63% said the increase would be equitable and do the least damage to the economy.

Pulling these results together presented researchers with a challenge. Without pushing the data too far, five conclusions emerge. First, personal and corporate income taxes are not generally seen as economically benign, and if any tax were to be reduced, the personal income tax has the most popular appeal.

Second, it is clear that property taxes are the least popular tax in Saskatchewan. While there is a measure of toleration for the municipal property tax, this does not transfer over to the education property tax. This fact applies with equal force to property taxes paid by individuals and business.

Third, opinion on the provincial sales tax is mixed. The tax is generally viewed as less harmful to the economy, and few would reduce the tax if given an opportunity to reduce other taxes. Conversely, if taxes had to be increased, the provincial sales tax is probably the most logical and popular choice. The rub comes when considering the last question. One-third would like to see increased reliance on the provincial sales tax, one-third would like increased reliance on the corporate income tax, and one-third would like to keep the balance the same. That muddies the waters. The only clear message here is the complete and utter lack of support for any increased reliance on the personal income tax.

Fourth, it is clear that tax reforms come best as a package. For example, lowering corporate income taxes without action on the personal income tax is sure to face some heavy sledding. The surveys show that reductions in personal income tax are much preferred. If the total tax burden is to be reduced, the personal income tax must be a part of that reduction. Addressing concerns with the property tax—especially the education property tax— cannot be ignored either. Moving ahead on a tax reform agenda that ignores the education property tax would appear quite illogical. Action with the provincial sales tax is a bit of an unknown—especially if it proceeds on a stand alone basis. But, if changes to the provincial sales tax can be included along with a set of attractive changes to the personal income tax and the education property tax, then the prospects for success might improve.

Finally, the rationale for a set of reforms likely has more traction when they can be said to improve upon equity and fairness in the tax system, and also help strengthen the provincial economy. Again, these two were the most often mentioned reasons for the various tax choices that the respondents were asked to make.

The reforms in the *Framework* comprise a package. It is a broad-based package with action on reforming property taxes, reducing and reforming personal income taxes, and a set of options for lowering the tax burden on business and capital investment. Many, if not all of the reforms, also speak to improving upon equity and strengthening the province's economic potential. The surveys do provide a sense that the broader package should enjoy a measure of popular appeal.

The surveys—especially the *WEESR* survey—explored perceptions related to each specific reform.

Reform #1: **Education Property Tax (Residential and Non-residential)**	
Action:	Transfer additional education funding away from the property tax to other provincial tax sources

The surveys indicate this reform should enjoy significant support. Almost half of all respondents said the education property tax is the worst personal and business tax. That is twice the number who chose the personal income tax and four times the number who chose the corporate income tax. An open-ended question in the survey asked respondents about the one change they would make to the education property tax. Of those who answered, 61% said reduce or eliminate the education property tax. Almost two-thirds of respondents to the *WEESR* survey said the best tax system is one where there is no education property tax at all (64%).

Reform #2: **Education Property Tax (Non-residential)**	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties

The surveys indicate this reform might face heavier sledding. Messaging is important. Opinion was split among *WEESR* respondents concerning the practice of taxing non-residential properties at higher effective rates than residential properties. When asked if they agreed with the practice, 47% said yes, 41% said no, while 13% were indifferent. At the same time, few registered "strong" agreement or disagreement. Thus, opinion on the matter appears to be somewhat soft. In communicating the intent of this reform, it is important to stress that non-residential properties will still be paying more property tax than residential properties, but the ability to write off property taxes against corporate and personal income tax results in an equalization. This approach may serve to bridge any gap in public opinion on the issue.

Reform #3: **Municipal and Education Property Tax (Residential and Non-residential)**	
Action:	Assessment cycle reduced from 4 years to 2 years, and a program of administrative simplification

The surveys indicate this reform should enjoy solid support. First, results of the *WEESR* survey showed that 49% agreed with more frequent property assessment while 26% disagreed. Second, 74% agreed that the property tax system in Saskatchewan was difficult to understand and not transparent. In fact, 30% agreed "strongly" on this point. While the specifics of the reform are perhaps open to question in terms of public support, there can be no doubt that the general thrust of simplification should be quite appealing.

Reform #4: **Personal Income Tax**	
Action:	Move to a dual rate structure of 9% and 12%

The surveys indicate that the personal income tax is probably the most popular tax to reduce, and the change in the personal income tax structure is a compromise. This change would reform and reduce the personal income tax in stages over the next decade. As noted above, reductions in the personal income tax received the most support from the most respondents. As such, reduction of the tax is not an issue. What might be more of an issue is moving from a three-rate structure to a dual rate structure. When *WEESR* respondents were queried on the preferred structure of the personal income tax, 65% agreed it was possible to build a more competitive personal income tax that would be fair, 69% agreed it was important to factor in the impact on labour supply when structuring the tax, and 77% agreed that the structure of the tax is important to attract and retain people. With a strong consensus on the importance of structure, opinion among *WEESR* respondents divided on the question of a single rate personal income tax. Of the respondents, 42% agreed with a single-rate personal income tax, while 57% agreed with a progressive tax with higher rates for those with higher incomes. The dual rate tax is the compromise—it achieves beneficial structural change at the same time that a measure of progressivity is retained. In that sense, it speaks to both sides of the debate.

Reform #5: Municipal Property Tax (Non-residential properties in Regina and Saskatoon)	
Action:	Cap differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties

The surveys indicate this change could face heavier sledding. Again, messaging is important: As noted above, opinion was split among *WEESR* respondents concerning the practice of taxing non-residential properties at higher effective rates than residential properties. It is important to underscore that non-residential properties will still be paying more property tax than residential properties. An additional messaging component is to communicate that both Regina and Saskatoon have been working toward the goal of reducing the effective tax rate gap between residential and non-residential property owners. In fact, Saskatoon has already achieved its long-standing goal of reducing the gap to 1.75. This reform simply urges a little more forward progress on this front.

Reform #6: Financial Corporate Capital Tax	
Action:	Eliminate

The surveys did not explore this reform, but it should present few problems: Elimination of the financial corporate capital tax was not explored in the surveys as it is an obscure tax of which few are aware. The tax raises only

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$21 million annually. As such, it is one of the easier reforms to follow up on, and it should draw little public attention.

Reform #7: Improve the competitiveness of Saskatchewan business (3 options)	
OPTION A	
Reform:	Provincial Sales Tax
Action:	Harmonize PST with GST at a provincial rate of 7%

The surveys indicate that there is a base upon which support for an HST could conceivably be built. The surveys did not directly probe into the harmonization issue. This was intentional. Harmonization is a hot topic in tax policy debates, and this project extends well past the limited scope of harmonization. Further, researchers did not want respondents supposing that the surveys were an attempt to gather opinions on harmonization by placing the issue within a batch of other tax issues. As such, the surveys sought to approach harmonization in a more subtle fashion—providing respondents with an opportunity to bring up harmonization themselves in several open-ended questions, inquiring about perceptions of the provincial sales tax in general, and asking questions about the effects of the provincial sales tax on business inputs.

Respondents to the *WEESR* survey were asked in an open-ended question what one change they would make to the tax system. Two-thirds of the respondents offered an opinion, and 21% mentioned support for harmonization. It was the most frequently mentioned option. Perhaps more enlightening are the 194 written submissions that the Foundation received. In those submissions, 17% said they would support harmonization. This contrasts with 5% who expressed opposition. One should not read too much into these results—the survey is not scientific, the sample is small, respondents were self-selected, and many did not express support for harmonization. Yet, it is interesting to note that those who took the time to write a submission were three times more likely to support harmonization than oppose it.

When *WEESR* respondents were asked about current administration of the provincial sales tax, 41% said that the sales tax is not very open and not very transparent. Perhaps more important, 70% of *WEESR* respondents said that the province should do all that it can to reduce the impact of the provincial sales tax on business inputs.

These results can be combined with some of the earlier data. In the surveys, consumption taxes were rated as better for the economy by more respondents (48%) than any other tax. When it came to identifying the best tax on individuals, the provincial sales tax was also mentioned by more respondents (48%) than any other tax. Only 15% of respondents chose the provincial sales tax as the worst tax. If given a choice to reduce a tax, only 12% chose the provincial sales tax. Conversely, if taxes had to be increased, more respondents (32%) chose the provincial sales tax than any other tax.

Again, none of this translates into support for harmonization now, or support for harmonization later. But it does demonstrate, at least to some degree, a foundation of support for sales taxes generally speaking. This combines with the fact that 70% of *WEESR* respondents are aware of the damaging effects of provincial sales tax on business. The challenge for the HST as an option is whether that foundation can be strengthened.

Reform #7: **Improve the competitiveness of Saskatchewan business (3 options)**	
OPTION B	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 9% and small business rate to 3%

The surveys indicate that further reductions in corporate income taxes are possible and would be supported, but the path is smoothed when it combines with reductions in personal taxes: If given a choice to reduce any one tax, more respondents chose the personal income tax (41%) than chose the corporate income tax (9%). If taxes had to be increased, more chose the corporate income tax (24%) than the personal income tax (6%). Reductions in personal income tax are just more popular than reductions in the corporate income tax. If corporate taxes are to be reduced, the path is likely easier when it combines with reductions in the personal income tax as well. Three-quarters of *WEESR* respondents (74%) agreed that high corporate taxes can encourage businesses to report their net income in lower tax jurisdictions, and a majority also agreed with a lower rate for small business (58%). Option B reduces the general corporate and small business rate in the context of personal income tax reductions, and maintains a spread between the general rate and the small business rate—although the reform reduces the size of that spread to achieve a greater measure of equity between business type and size.

Reform #7: **Improve the competitiveness of Saskatchewan business (3 options)**	
OPTION C	
Reform:	Corporate Income Tax
Action:	Reduce general rate to 10%, small business rate to 3.5%, provide PST offsets

The surveys indicate this reform is probably doable, but concern could emerge over increased complexity: The basic thrust behind Option B and Option C are quite similar, but Option C carries less fiscal impact and would also add complexity to administration of the provincial sales tax by the creation of new sales tax input credits or point of sale exemptions. Adding these types of features complicates the tax and makes it less transparent. While 70% of *WEESR* respondents agree that government should reduce the impact of the provincial sales tax on business inputs, 41% also agree that the provincial sales tax is not open or transparent enough as it sits today.

Final Word

In working through the surveys, researchers read each and every submission. There was one theme that emerged in the submissions unrelated to tax policy changes strictly speaking. That theme concerned government spending. Almost one-quarter of all the written submissions (23%) offered advice on the spending side of the fiscal equation. The general thrust of the comments was that government needs to be diligent with its spending, and pursue efficient and effective spending. Some desired lower spending levels as well.

CHAPTER 11: DISCUSSION

In recent years, many good things have shaped the Saskatchewan tax regime, starting with significant personal income tax reforms in 2000, subsequent changes to the provincial sales tax base and a lowering of the sales tax rate, lower rates of corporate income tax and elimination of the general corporate capital tax starting in 2006, additional reductions in the personal income tax in 2008, and education property tax reductions in 2009. The reforms envisioned here are designed to build on those changes, expand upon them, and contribute to the momentum that they have established for a more competitive tax system that is now beginning to emerge in Saskatchewan. In approaching this project, the authors kept these recent reforms in view, but also married them to a comprehensive evaluation of the major tax fields occupied by the provincial and municipal governments in Saskatchewan. In moving the project ahead, careful attention was paid to the administrative processes and procedures associated with each tax in an attempt to find the most beneficial and productive reforms possible.

Several parameters guided the work. First, agreement was secured on the essential nature of the reforms. Agreement emerged from the outset that the reform options should be practical, tangible, doable, and be broad-based as supposed to industry-specific, taxpayer-specific, or activity-specific. Across the economic and tax policy literature, there is wide agreement that tax reform offers the most benefits when it is broad-based, as opposed to focusing on "boutique" style reforms that target certain sectors or actors.

Second, considerable time and effort was spent pulling together a comprehensive list of evaluative criteria that outline solid principles of good tax policy and the major themes that should drive any effort to build a more competitive tax system. Each reform that was identified speaks—in one way or another—to vital and critical elements within the evaluative criteria. In this sense, the research and reforms were kept as practical and objective as possible, rather than reflecting personal opinions and potential biases. A second safeguard was running the reforms through the survey results. To be sure, the survey results do not align perfectly with all the reforms. That would be expecting too much. But, the surveys do show numerous areas of alignment.

Third, substantial effort was expended to ensure that the reforms could be carried out by government. Central here was establishing a long enough implementation period that had the reforms landing with equal fiscal impact across the phase-in horizon. The long time period will allow government to uncover the best means to fund the reforms and build a more competitive tax system. In outlining a workable implementation schedule, we consciously avoided any discussion of how government spends its tax revenue. While taxation and expenditure are the two sides of the fiscal equation, our interest remained in improving the tax regime employed to finance government expenditures.

Fourth, many of the reforms do involve a reduction in the overall tax load. To be sure, tax levels alone cannot confer economic competitiveness. As such, the focus also turned to questions involving the tax mix in Saskatchewan. Improving and bettering the balance of taxes in play can be seen in the suggestion to fund more of the costs of K-12 education from provincial revenue sources as opposed to the education property tax, and the idea of shifting to a stronger emphasis on sales taxation relative to personal and corporate income taxes. In securing a different tax mix, it is helpful to understand that even corporate taxes are ultimately paid by individuals and that some taxes and tax bases are just better than others. Toying with the idea of a tax regime with no property taxes at all was a fun exercise, but it found little support in the surveys and the attempt would probably push the envelope too far.

Finally, many of the reforms identified here do match up with directions that have emerged elsewhere. Lowering the tax impact on new capital investment, simplifying the property tax, and resolving numerous inequities in the current tax regime are but three examples. At the same time, some of the reforms are different than what others have been proposing. Two in particular stand out.

First, there have been numerous calls within Saskatchewan to go ahead with a 10% single rate personal income tax system. That option was seriously considered, but in the end, the dual rate personal income tax emerged as a superior reform. On the following page are two tables *(Figures 13 and 14)* outlining our findings with respect to the matter.

The dual rate structure brings several benefits that are important to many people and groups within Saskatchewan. First, the dual rate tax is slightly more progressive than the single rate tax. Given the wide differences of opinion with respect to progressivity, the better approach forward is the middle position. The dual rate tax moves the system closer to the single rate tax in Alberta and makes it more competitive, but not at the expense of losing a measure of progressivity important to many residents and

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FIGURE 13: Interprovincial Comparison of Personal Income Tax
2010 Results Based on the 2010 Results Based on a Single Rate 10% PIT in Saskatchewan

Family Income	Single Rate SK PIT (2010)	Current BC PIT (2010)	SK Difference from BC	Current AB PIT (2010)	SK Difference from AB
Single Individual					
$15,000	$82	$0	$82	$0	$82
$25,000	$1,016	$491	$525	$668	$348
$35,000	$1,949	$1,105	$844	$1,601	$348
$50,000	$3,374	$2,199	$1,175	$3,026	$348
$75,000	$5,874	$4,216	$1,658	$5,526	$348
$100,000	$8,374	$7,158	$1,216	$8,026	$348
$200,000	$18,374	$21,858	($3,484)	$18,026	$348
Dual Income Family (2 Children)					
$35,000	$0	$174	($174)	$0	$0
$50,000	$742	$869	($127)	$1,134	($392)
$75,000	$3,078	$2,459	$619	$3,372	($294)
$100,000	$5,501	$4,189	$1,312	$5,794	($293)
$200,000	$15,459	$14,524	$935	$15,753	($294)

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministry of Finance, 2010.

FIGURE 14: Interprovincial Comparison of Personal Income Tax
2010 Results Based on the New Dual Rate PIT in Saskatchewan at Maturity

Family Income	Dual Rate SK PIT (2010)	Current BC PIT (2010)	SK Difference from BC	Current AB PIT (2010)	SK Difference from AB
Single Individual					
$15,000	$74	$0	$74	$0	$74
$25,000	$914	$491	$423	$668	$246
$35,000	$1,754	$1,105	$649	$1,601	$153
$50,000	$3,037	$2,199	$838	$3,026	$11
$75,000	$5,287	$4,216	$1,071	$5,526	($239)
$100,000	$7,537	$7,158	$379	$8,026	($489)
$200,000	$19,078	$21,858	($2,780)	$18,026	$1,052
Dual Income Family (2 Children)					
$35,000	$0	$174	($174)	$0	$0
$50,000	$668	$869	($201)	$1,134	($466)
$75,000	$2,771	$2,459	$312	$3,372	($601)
$100,000	$4,951	$4,189	$762	$5,794	($843)
$200,000	$14,055	$14,524	($469)	$15,753	($1,698)

Source: Derived by Canada West Foundation from data supplied by the Government of Saskatchewan, Ministryof Finance, 2010.

taxpayers in Saskatchewan. Second, the dual rate tax would result in less personal income taxes being paid by all taxpayers above the basic exemptions and credits, except for the single tax filer with an income over $200,000. Since those types of taxpayers are both few and far between, the dual rate tax arguably provides the most benefit for the most taxpayers. Third, the first rate in the dual rate personal income tax—9%—aligns nicely with the general corporate income tax rate in Scenario B. Such integration across the larger tax system is always beneficial. Finally, the great majority of Saskatchewan taxpayers will be paying personal income tax at the 9% rate. The 12% rate will apply only to income in excess of the threshold for the 15% rate in the current system ($115,237 for 2010). In 2007, only 4% of all tax filers had incomes in excess of $100,000. In short, the dual rate tax is an option that government and Saskatchewan residents should seriously consider.

The second area where the reforms are somewhat offside with those suggested elsewhere concerns harmonization. In Saskatchewan, there are strong proponents both for the move as well as against the move. Past Canada West Foundation research and commentary has identified both the advantages and the disadvantages of harmonization, and also noted its economic benefits. At the same time, our research and discussion could not ignore the many political issues currently surrounding the HST.

A decision was made to examine changes in other tax bases that might accomplish some of the same objectives and criteria of a harmonized provincial sales tax. Those changes constitute Options B and C. Both are viable reforms, and both work to accomplish some of what the HST is intended to achieve with respect to the taxation of capital investment.

As work under the project continued, it was interesting to see how some reforms also began to drive other reforms. In part, this reflects the effort to propose not just a list of potential tax changes, but a set of reforms that could be built into "a package" that could be pursued as a larger endeavour. One of the more interesting developments occurred around the work on harmonization.

The HST option is an opportunity to effect a beneficial change in the tax mix—a shift from taxation on income to taxation of consumption. While the HST option has a lower fiscal impact than the other options, there is a considerable downside to the HST. With an HST, consumers will bear an increased tax burden as the taxation on business inputs is eliminated. In Saskatchewan, that is not insignificant because business has been estimated to pay over 50% of all sales tax revenue collected. As such, the HST should not go ahead without some offsetting changes.

Our work on the project had initially concluded that a dual rate personal income tax of 10% and 12% would be beneficial and workable. But, there was also the need to create an offset for the HST option. Thus, the idea of lowering the initial personal income tax rate to 9% emerged. Option A, then, included a new dual rate structure of 9% and 12%. But now a dilemma arrived. The Option A scenario had a 9% and 12% personal income tax structure with no change in the corporate income tax. But, Option B still had the 10% and 12% personal income tax rate *and* a lower general corporate income tax rate of 9%. This upset the balance between corporate and individual taxpayers, and also required government to choose between two different personal income tax reforms. In our minds, we saw considerable logic in having the same 9% rate for both the personal and corporate income tax systems, regardless of what happened with the HST. In the end, the 9% and 12% emerged as a highly viable option to offset any potential HST in the case of Option A, but also to integrate with the corporate income tax rate of 9% in the case of Option B.

As work proceeded, other potential reforms also emerged as possibilities. Most notable here were natural resource revenue and the taxation of other commodities such as fuel. However, the scope for action was already substantial. As such, we declined to issue commentary on these matters. There were other considerations as well. The matter of resource royalties is highly complex, and should be explored in more detail on its own. Our only comment would be that Saskatchewan continue to monitor and watch the royalty regime carefully because investment is highly sensitive to differentials in provincial royalty regimes. Evidence in this regard recently emerged in a *Globe and Mail* article explaining how the recent royalty reductions in Alberta are enticing investment away from Saskatchewan and into Alberta (MacDougal 2010).

Likewise, no work was put into the idea of "green" tax reforms—such as lowering personal income or corporate income taxes and increasing fuel taxes. Upward adjustments to fuel taxes were not supported by survey respondents, and fuel taxes in Saskatchewan are already higher than those in Alberta and Manitoba. Perhaps more important, changes here would be heavily influenced by what eventually emerges on the broader North American picture with respect to environmental concerns. Such reforms, then, should be deferred until the landscape becomes more clear.

In the end, the project has resulted in an aggressive yet highly doable set of reform options for the Government of Saskatchewan to consider. While there is certainly a challenge in implementing the reforms, the next decade in Saskatchewan may well offer a considerable opportunity to do so. As the familiar Shakespearean quote goes:

> *"There is a tide in the affairs of men, which taken at the flood, leads on to fortune...and we must take the current when it serves, or lose our ventures."*

CHAPTER 12: CONCLUSION

Ever since the deficit and debt crisis of the 1990s, successive federal and provincial governments in Canada have embarked on a loosely knit—but by no means insignificant—series of reductions in the amount of taxes that Canadians pay. At both the federal and provincial levels, Canadians have seen reductions in personal income taxes, corporate taxes, various sales taxes, and education property taxes. Saskatchewan is no stranger to the trend.

The recent return of deficits has not prompted governments to end this process of tax reform and reduction. A look at the 2010 federal and provincial budgets tells the story. The federal government remains committed to lowering the corporate income tax rate. Both British Columbia and Ontario are eliminating their financial corporate capital tax. British Columbia and Manitoba are ditching the corporate income tax on small business. Ontario is lowering its general and small business corporate income tax. New Brunswick recently announced across-the-board reductions in all of its personal income tax rates. To be sure, some provinces are moving in other directions. Sales taxes will be rising in Quebec and Nova Scotia. But then again, other provinces are working to change their mix of taxes and improve upon administration. Such efforts include the harmonization of provincial sales taxes in British Columbia and Ontario, and recent efforts at education property tax reform and reduction in Saskatchewan.

Tax policy never stands still. The competitive goal posts are always moving. The other side is continually shifting position. To be competitive, you have to do more than scramble behind the line of scrimmage. You have to huddle, break-free with a plan, and get that ball down the competitive field. Small incremental tax changes are the equivalent of punting. A broad-based, attractive, and highly competitive tax system comes from the bold tax policy move—connecting with the 50-yard pass.

This *Framework* has identified a package of bold and innovative tax reform options for Saskatchewan. The reforms rest on a consideration of recent tax developments across Canada and in Saskatchewan. The reforms draw upon a detailed comparative analysis of where Saskatchewan could make improvements. The reforms are the product of objective evaluative criteria. The reforms factor in the views and opinions of 800 Saskatchewan residents on a wide range of tax issues in Saskatchewan. The reforms are bold, yet thoughtful and realistic.

The imperative for a competitive tax system hits hard in Saskatchewan. Saskatchewan is neighbour to British Columbia and Alberta—the two jurisdictions with some of the lowest tax rates in Canada (e.g., personal income tax and corporate income tax). But Saskatchewan is now a partner with BC and Alberta too, having joined to create a new interprovincial free trade zone in western Canada under the *New West Partnership*. There is a tremendous premium now on building and maintaining a competitive provincial tax position.

But the imperative for Saskatchewan does not stand alone. It is accompanied by tremendous opportunity. During the last half of the past decade, Saskatchewan had the fastest growing provincial economy in Canada. The province is in relatively strong fiscal shape. The prospects for growth across the next decade are more than good. And, there is also the promise of resource revenue given Saskatchewan's significant natural resource endowments, competitive companies, and the growth prospects for commodities in rapidly growing markets such as China. In short, Saskatchewan's opportunity in the next decade centres around the very real prospect of a growing ability to pursue—affordably—a package of tax reforms and reductions that can cement many of the province's recent economic gains.

If Saskatchewan can reform and reduce its taxes in a strategic fashion to further promote business competitiveness and investment, while still maintaining critical social and infrastructure investment, then the province is sure to win the ability to lever even greater economic gains—emboldening a virtuous circle of future growth, prosperity, and opportunity. Saskatchewan is already western Canada's *"Land of Living Skies."* Would that those skies had no limits? ■

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APPENDIX A
THE TAX LEVEL: SASKATCHEWAN'S TOTAL TAX BURDEN

Introduction

This appendix explores the total tax burden in Saskatchewan compared to other provinces. Data for the federal government is provided for information purposes. Most of the data come from the Canada West Foundation's public finance database. This database has two components. The first component is based on the system of *Public Accounts*—the financial documents issued by federal, provincial, and municipal governments. This section of the database is regularly updated by the Foundation as new financial information becomes available. Because governments use different accounting practices, the Foundation adjusts these data to increase comparability. The second section of the public finance database is based on the *National Income and Expenditure Accounts (NIEA)* and the system of *Provincial Economic Accounts (PEA)* published by Statistics Canada. These data are already adjusted for accounting differences and are consistent over time and between governments. These data are largely restricted to historical analysis. Much of the data tend to lag about two to three years behind the current fiscal year.

The revenue data in this report and the various appendices are a *hybrid* of the two components. The decision was made early on in the project to merge data from the two components. First, we wanted current data. This meant utilizing the Public Accounts. But, the Public Accounts do not record municipal property taxes collected in the provinces, and only British Columbia, Alberta, Ontario, New Brunswick, and PEI record any education or provincial property taxes. Thus, we removed all property taxes (except land transfer taxes) for these five provinces. Then, we took the Statistics Canada data for municipal and provincial education property taxes and added them for every province. This gives the best comparative picture. The total tax revenue for each province and the federal government thus includes personal income taxes, all corporate taxes, general sales tax revenue, and selective sales taxes (e.g., fuel, tobacco, hotels, tourism) based on the Public Accounts. Property taxes for municipal and education purposes from Statistics Canada were then added to produce a total tax amount. NIEA data on CPP and QPP premiums were also collected and added to federal government personal income tax revenues.

The Data

The charts which follow show the relative tax burden in Saskatchewan, and underpin the findings in the main report of the *Framework* with respect to current and historical tax levels.

Saskatchewan collects significant resource revenue, which means the province can afford a lower overall tax burden. Estimates for 2010/11 show that Saskatchewan expects to collect the second highest amount of resource revenue as a percentage of GDP of all the provinces *(Figure A.1).* Resource revenue for Saskatchewan has also grown. From 1989/90 to 1999/00, resource revenue averaged 2.32% of GDP. From 2000/01 to 2010/11 resource revenue averaged 3.72% of GDP. From 1989/90 to 2006/07, Alberta collected more resource revenue than Saskatchewan when measured as a percentage of GDP. But from 2007/08 to 2010/11, resource revenues in Saskatchewan as a percentage of GDP has surpassed that of Alberta.

Resource revenues are intimately linked to a lower tax-to-GDP ratio *(Figure A.2)*. When considering tax-to-GDP ratios, the data show four groups of provinces. The first group contains just one province—Alberta—which has a tax-to-GDP ratio under 10%. British Columbia, Saskatchewan, and Newfoundland and Labrador form the second group, each with a tax-to-GDP ratio between 10% and 12%. The third group is comprised of Manitoba and New Brunswick, both with ratios between 12% and 14%. The fourth group consists of Ontario, Quebec, Nova Scotia, and PEI, each of which have ratios over 14%. Saskatchewan currently has the 4th lowest tax-to-GDP ratio at 11.95%, which is slightly higher than British Columbia's 11.75%. All provinces except Nova Scotia and PEI have a lower tax-to-GDP ratio in 2010/11 than at any point in the past 20 years. To find out which province has succeeded more in reducing its tax-to-GDP ratio, one can look at the "peak" in the ratio—which usually occurred sometime in the mid or late 1990s—and subtract the estimated ratio for 2010/11. Saskatchewan's ratio peaked at 15.10% in 1993/94. In 2010/11, the ratio is 11.95%. This is a 3.15 percentage point drop in the tax-to-GDP ratio. This is the second largest drop of all provinces. Taxes in Saskatchewan are considerably lower today than in the past.

When taxes and resource royalties are added and then set against GDP, Saskatchewan emerges with the 5th highest ratio at 14.91% *(Figure A.3)*. However, this does not imply that the provincial government footprint on the Saskatchewan economy is overly high. Provincial expenditures in Saskatchewan are the second lowest of all the provinces at 21.44% of GDP. Only Alberta has a lower total expenditure-to-GDP ratio. The apparent paradox relates to the strength of Saskatchewan's fiscal position. Saskatchewan has the smallest "cash" deficit of all the provinces *(Figure A.4)*. Only 6.6% of Saskatchewan's total expenditures for 2010/11 are estimated in the budget to be deficit financed. Alberta, on the other hand, will see almost 15% of its budgeted expenditures financed by borrowing.

Every year, the province of British Columbia calculates an estimated tax burden for various family types and includes the comparative analysis in its budget document. For 2010/11, residents of Saskatchewan are estimated to have the third lowest total tax bill *(Figure A.5)*. When considering a family of four earning $50,000 annually, Saskatchewan emerges with the second lowest tax bill among all the provinces.

FIGURE A.1: Resource Revenues Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	0.00%	1.65%	3.32%	1.76%	0.21%	0.08%	0.06%	0.26%	0.00%	0.00%	0.28%
1990-91	0.00%	1.47%	3.67%	1.96%	0.22%	0.08%	0.06%	0.26%	0.00%	0.00%	0.23%
1991-92	0.00%	1.35%	2.77%	1.52%	0.24%	0.08%	0.06%	0.26%	0.00%	0.00%	0.18%
1992-93	0.00%	1.45%	2.91%	1.87%	0.28%	0.07%	0.05%	0.28%	0.00%	0.00%	0.18%
1993-94	0.00%	1.88%	3.47%	1.97%	0.28%	0.08%	0.06%	0.24%	0.00%	0.00%	0.14%
1994-95	0.00%	2.23%	3.84%	2.93%	0.28%	0.07%	0.09%	0.32%	0.00%	0.00%	0.17%
1995-96	0.00%	1.92%	3.03%	2.55%	0.29%	0.08%	0.13%	0.31%	0.00%	0.00%	0.18%
1996-97	0.00%	2.01%	4.09%	3.14%	0.31%	0.08%	0.13%	0.35%	0.02%	0.00%	0.20%
1997-98	0.00%	1.92%	3.53%	2.68%	0.30%	0.08%	0.20%	0.34%	0.00%	0.00%	0.25%
1998-99	0.00%	1.58%	2.20%	2.10%	0.27%	0.08%	0.12%	0.35%	0.01%	0.00%	0.21%
1999-00	0.00%	2.08%	3.97%	3.06%	0.26%	0.08%	0.17%	0.33%	0.01%	0.00%	0.31%
2000-01	0.00%	3.03%	7.31%	3.82%	0.26%	0.05%	0.12%	0.33%	0.04%	0.00%	0.42%
2001-02	0.00%	2.38%	4.12%	2.73%	0.41%	0.05%	0.08%	0.29%	0.07%	0.00%	0.32%
2002-03	0.00%	2.33%	4.73%	3.62%	0.37%	0.06%	0.08%	0.28%	0.04%	0.00%	0.55%
2003-04	0.00%	2.27%	4.51%	3.11%	0.27%	0.05%	0.04%	0.31%	0.08%	0.00%	0.76%
2004-05	0.00%	2.52%	5.14%	3.61%	0.35%	0.05%	0.09%	0.30%	0.09%	0.00%	1.30%
2005-06	0.00%	2.69%	6.53%	3.91%	0.40%	0.04%	0.20%	0.28%	0.40%	0.00%	2.35%
2006-07	0.00%	2.18%	5.14%	3.72%	0.33%	0.04%	0.05%	0.27%	0.85%	0.00%	1.70%
2007-08	0.00%	1.97%	4.29%	4.57%	0.33%	0.03%	0.03%	0.24%	1.21%	0.00%	6.23%
2008-09	0.00%	1.94%	4.09%	6.54%	0.32%	0.03%	0.00%	0.29%	1.32%	0.00%	7.85%
2009-10	0.00%	1.44%	2.50%	2.38%	0.32%	0.03%	0.04%	0.18%	0.33%	0.00%	8.56%
2010-11	0.00%	1.63%	2.82%	2.96%	0.29%	0.03%	0.01%	0.19%	0.49%	0.00%	8.61%

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), Dominion Bond Rating Service, and Statistics Canada.

FIGURE A.2: Total Taxes (Excluding Resource Revenues) Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	17.62%	13.84%	9.42%	13.55%	14.84%	15.14%	16.43%	14.50%	13.69%	13.65%	14.79%
1990-91	17.92%	13.96%	9.62%	13.20%	14.36%	15.90%	16.97%	14.65%	14.13%	13.79%	15.27%
1991-92	18.31%	14.15%	10.43%	14.12%	14.92%	15.30%	17.83%	14.66%	13.67%	13.70%	15.55%
1992-93	17.71%	13.99%	9.95%	15.01%	14.55%	15.27%	17.52%	13.66%	14.10%	12.79%	15.74%
1993-94	17.37%	14.51%	9.78%	15.10%	15.31%	16.13%	17.79%	14.52%	13.86%	13.52%	16.02%
1994-95	17.39%	14.69%	9.78%	14.48%	14.72%	15.90%	17.34%	14.63%	13.97%	13.69%	15.26%
1995-96	17.80%	14.60%	10.24%	14.33%	15.26%	15.68%	17.60%	14.41%	13.57%	13.94%	15.57%
1996-97	18.26%	14.80%	9.80%	14.10%	15.02%	15.99%	17.52%	15.18%	14.00%	13.99%	16.55%
1997-98	18.86%	14.23%	10.07%	14.08%	14.77%	15.87%	17.86%	14.13%	13.63%	14.39%	14.52%
1998-99	18.90%	14.15%	10.55%	14.24%	15.78%	15.74%	18.33%	12.96%	13.24%	13.85%	13.78%
1999-00	18.86%	13.75%	9.89%	14.00%	15.23%	15.08%	17.45%	12.89%	13.37%	14.28%	13.40%
2000-01	19.13%	13.15%	8.10%	12.80%	15.44%	14.79%	17.47%	12.95%	13.15%	13.70%	12.15%
2001-02	18.05%	13.20%	8.21%	12.58%	14.40%	14.09%	16.50%	12.89%	13.25%	13.93%	12.02%
2002-03	18.16%	11.83%	8.66%	13.37%	13.77%	13.78%	16.07%	13.24%	13.68%	13.92%	11.75%
2003-04	18.15%	12.38%	7.53%	12.69%	14.42%	13.38%	16.16%	13.18%	13.38%	13.93%	11.48%
2004-05	17.95%	12.16%	7.29%	11.99%	14.65%	14.27%	16.21%	12.64%	14.09%	13.86%	11.27%
2005-06	17.77%	12.28%	7.32%	12.40%	14.33%	14.53%	16.19%	12.94%	14.04%	14.99%	10.80%
2006-07	17.89%	12.44%	7.93%	12.95%	13.86%	14.96%	16.46%	13.63%	14.44%	15.09%	9.85%
2007-08	17.37%	12.68%	8.26%	12.21%	13.64%	15.13%	16.05%	13.54%	14.24%	14.50%	9.13%
2008-09	16.00%	11.77%	7.44%	10.14%	13.55%	14.32%	15.81%	13.59%	14.03%	14.34%	9.20%
2009-10	15.79%	11.93%	8.13%	12.27%	13.28%	14.50%	15.62%	13.32%	14.32%	15.12%	12.71%
2010-11	16.11%	11.75%	7.82%	11.95%	13.05%	14.96%	15.92%	12.76%	14.70%	15.28%	10.46%

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), Dominion Bond Rating Service, and Statistics Canada.

FIGURE A.3: Total Taxes and Resource Revenues Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	17.62%	15.49%	12.74%	15.31%	15.05%	15.22%	16.48%	14.75%	13.69%	13.65%	15.06%
1990-91	17.92%	15.43%	13.29%	15.16%	14.59%	15.97%	17.03%	14.91%	14.13%	13.79%	15.50%
1991-92	18.31%	15.50%	13.21%	15.64%	15.16%	15.38%	17.89%	14.91%	13.67%	13.70%	15.73%
1992-93	17.71%	15.44%	12.86%	16.88%	14.83%	15.34%	17.58%	13.94%	14.10%	12.79%	15.92%
1993-94	17.37%	16.40%	13.25%	17.07%	15.58%	16.22%	17.85%	14.76%	13.86%	13.52%	16.16%
1994-95	17.39%	16.92%	13.62%	17.41%	14.99%	15.97%	17.43%	14.95%	13.97%	13.69%	15.42%
1995-96	17.80%	16.52%	13.27%	16.88%	15.55%	15.76%	17.73%	14.72%	13.57%	13.94%	15.75%
1996-97	18.26%	16.81%	13.89%	17.24%	15.34%	16.07%	17.65%	15.53%	14.01%	13.99%	16.75%
1997-98	18.86%	16.16%	13.60%	16.76%	15.08%	15.95%	18.06%	14.47%	13.63%	14.39%	14.76%
1998-99	18.90%	15.73%	12.75%	16.35%	16.05%	15.82%	18.46%	13.31%	13.25%	13.85%	13.99%
1999-00	18.86%	15.84%	13.86%	17.06%	15.49%	15.17%	17.62%	13.22%	13.38%	14.28%	13.71%
2000-01	19.13%	16.17%	15.41%	16.63%	15.70%	14.85%	17.58%	13.29%	13.19%	13.70%	12.57%
2001-02	18.05%	15.58%	12.33%	15.30%	14.81%	14.14%	16.58%	13.18%	13.31%	13.93%	12.35%
2002-03	18.16%	14.16%	13.40%	16.99%	14.13%	13.84%	16.15%	13.52%	13.72%	13.92%	12.29%
2003-04	18.15%	14.65%	12.04%	15.80%	14.69%	13.43%	16.20%	13.49%	13.46%	13.93%	12.24%
2004-05	17.95%	14.68%	12.42%	15.61%	15.01%	14.32%	16.30%	12.94%	14.18%	13.86%	12.57%
2005-06	17.77%	14.98%	13.85%	16.32%	14.73%	14.57%	16.39%	13.21%	14.44%	14.99%	13.14%
2006-07	17.89%	14.62%	13.07%	16.68%	14.19%	15.00%	16.51%	13.90%	15.29%	15.09%	11.55%
2007-08	17.37%	14.66%	12.55%	16.78%	13.97%	15.16%	16.08%	13.78%	15.46%	14.50%	15.37%
2008-09	16.00%	13.72%	11.53%	16.68%	13.87%	14.36%	15.81%	13.88%	15.35%	14.34%	17.06%
2009-10	15.79%	13.37%	10.63%	14.65%	13.60%	14.53%	15.67%	13.50%	14.65%	15.12%	21.26%
2010-11	16.11%	13.38%	10.64%	14.91%	13.34%	14.99%	15.93%	12.95%	15.19%	15.28%	19.07%

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), Dominion Bond Rating Service, and Statistics Canada.

FIGURE A.4: Total Expenditure as a % of GDP and the Expenditure Funding Profile, 2010/11 (in $000,000s)

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Expenditure-to-GDP Ratio											
Total Expenditures	$280,500	$47,371	$45,467	$12,369	$12,856	$147,557	$87,487	$8,728	$10,401	$1,661	$7,750
Gross Domestic Product	$1,601,000	$196,300	$259,165	$57,682	$52,737	$592,212	$315,571	$28,724	$35,335	$4,857	$25,420
Expenditures % of GDP	**17.52%**	**24.13%**	**17.54%**	**21.44%**	**24.38%**	**24.92%**	**27.72%**	**30.39%**	**29.44%**	**34.20%**	**30.49%**
Expenditure Funded by											
Taxation	73.65%	48.69%	44.58%	55.71%	53.55%	60.04%	60.94%	41.99%	49.93%	44.67%	34.31%
Non-Tax Revenue	8.81%	17.30%	13.21%	10.16%	6.86%	6.44%	11.52%	9.50%	11.07%	7.41%	11.02%
Federal Transfers	0.00%	16.22%	11.19%	13.74%	29.18%	16.05%	17.52%	34.02%	30.77%	37.75%	17.97%
Resource Revenue	0.00%	6.77%	16.09%	13.82%	1.18%	0.13%	0.03%	0.63%	1.67%	0.00%	28.25%
Deficit	17.54%	11.02%	14.93%	6.56%	9.23%	17.33%	10.00%	13.86%	6.57%	10.17%	8.45%
Total Expenditure	**100.00%**	**100.00%**	**100.00%**	**99.99%**	**100.00%**	**99.99%**	**100.01%**	**100.00%**	**100.01%**	**100.00%**	**100.00%**

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), Dominion Bond Rating Service, and Statistics Canada.

FIGURE A.5: Personal Taxes Payable by Individuals at Various Levels of Income, 2010/11

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Single Individual Earning $25,000 Annually										
Federal:										
Personal Income Tax	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811
CPP or QPP Premiums	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064
EI Premiums	$433	$433	$433	$433	$433	$433	$433	$433	$433	$433
GST and Fuel Taxes	$186	$210	$187	$175	$178	$172	$163	$156	$155	$159
Total Federal Taxes	**$3,494**	**$3,518**	**$3,495**	**$3,483**	**$3,486**	**$3,480**	**$3,471**	**$3,464**	**$3,463**	**$3,467**
Provincial:										
Income Tax & Health Premiums	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811	$1,811
General Sales Tax and Fuel Tax	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064	$1,064
Property Taxes	$433	$433	$433	$433	$433	$433	$433	$433	$433	$433
Payroll Tax	$186	$210	$187	$175	$178	$172	$163	$156	$155	$159
Total Provincial Taxes	**$3,494**	**$3,518**	**$3,495**	**$3,483**	**$3,486**	**$3,480**	**$3,471**	**$3,464**	**$3,463**	**$3,467**
Total Taxes	**$4,109**	**$4,280**	**$4,875**	**$6,283**	**$5,833**	**$6,376**	**$5,480**	**$5,720**	**$5,741**	**$6,108**
Single Individual Earning $75,000 Annually										
Federal:										
Personal Income Tax	$11,481	$11,481	$11,481	$11,481	$11,481	$11,481	$11,481	$11,481	$11,481	$11,481
CPP or QPP Premiums	$2,163	$2,163	$2,163	$2,163	$2,163	$2,163	$2,163	$2,163	$2,163	$2,163
EI Premiums	$747	$747	$747	$747	$747	$747	$747	$747	$747	$747
GST and Fuel Taxes	$1,321	$1,368	$1,280	$1,234	$1,282	$1,173	$1,238	$1,193	$1,215	$1,228
Total Federal Taxes	**$15,712**	**$15,759**	**$15,671**	**$15,625**	**$15,673**	**$15,564**	**$15,629**	**$15,584**	**$15,606**	**$15,619**
Provincial:										
Income Tax & Health Premiums	$4,901	$5,526	$7,155	$8,137	$5,659	$9,236	$7,140	$8,683	$8,350	$7,330
General Sales Tax and Fuel Tax	$1,779	$145	$1,034	$1,332	$2,096	$1,985	$1,974	$1,981	$1,634	$2,056
Property Taxes	$1,043	$1,995	$3,128	$3,079	$3,207	$4,181	$1,953	$3,057	$2,421	$1,688
Payroll Tax	—	—	—	$1,613	$1,463	$3,195	—	—	—	$1,500
Total Provincial Taxes	**$7,723**	**$7,666**	**$11,317**	**$14,161**	**$12,425**	**$18,597**	**$11,067**	**$13,721**	**$12,405**	**$12,574**
Total Taxes	**$23,435**	**$23,425**	**$26,988**	**$29,786**	**$28,098**	**$34,161**	**$26,696**	**$29,305**	**$28,011**	**$28,193**
Two Income Family of Four Earning $50,000 Annually										
Federal:										
Personal Income Tax	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083	$2,083
CPP or QPP Premiums	$2,129	$2,129	$2,129	$2,129	$2,129	$2,129	$2,129	$2,129	$2,129	$2,129
EI Premiums	$865	$865	$865	$865	$865	$865	$865	$865	$865	$865
GST and Fuel Taxes	$1,157	$1,302	$1,207	$1,136	$1,176	$1,221	$1,124	$1,117	$1,122	$1,128
Total Federal Taxes	**$6,234**	**$6,379**	**$6,284**	**$6,213**	**$6,253**	**$6,298**	**$6,201**	**$6,194**	**$6,199**	**$6,205**
Provincial:										
Income Tax & Health Premiums	$2,328	$1,336	$1,146	$2,765	$802	$3,142	$2,739	$2,710	$3,096	$2,413
General Sales Tax and Fuel Tax	$1,592	$145	$924	$1,263	$1,937	$2,083	$1,807	$1,873	$1,537	$1,912
Property Taxes	$1,788	$2,016	$2,883	$1,903	$3,309	$3,150	$2,402	$2,327	$2,627	$1,645
Payroll Tax	—	—	—	$1,075	$975	$2,130	—	—	—	$1,000
Total Provincial Taxes	**$5,708**	**$3,497**	**$4,953**	**$7,006**	**$7,023**	**$10,505**	**$6,948**	**$6,910**	**$7,260**	**$6,970**
Total Taxes	**$11,942**	**$9,876**	**$11,237**	**$13,219**	**$13,276**	**$16,803**	**$13,149**	**$13,104**	**$13,459**	**$13,175**
Two Income Family of Four Earning $100,000 Annually										
Federal:										
Personal Income Tax	$10,553	$10,553	$10,553	$10,553	$10,553	$10,553	$10,553	$10,553	$10,553	$10,553
CPP or QPP Premiums	$3,970	$3,970	$3,970	$3,970	$3,970	$3,970	$3,970	$3,970	$3,970	$3,970
EI Premiums	$1,439	$1,439	$1,439	$1,439	$1,439	$1,439	$1,439	$1,439	$1,439	$1,439
GST and Fuel Taxes	$1,433	$1,529	$1,457	$1,380	$1,421	$1,405	$1,374	$1,352	$1,365	$1,377
Total Federal Taxes	**$17,395**	**$17,491**	**$17,419**	**$17,342**	**$17,383**	**$17,367**	**$17,336**	**$17,314**	**$17,327**	**$17,339**
Provincial:										
Income Tax & Health Premiums	$5,787	$6,094	$6,774	$8,965	$5,981	$10,605	$8,033	$9,396	$9,200	$7,437
General Sales Tax and Fuel Tax	$1,953	$147	$1,197	$1,533	$2,318	$2,384	$2,203	$2,244	$1,863	$2,305
Property Taxes	$2,669	$2,484	$4,327	$2,496	$4,631	$4,582	$4,320	$3,709	$3,303	$2,390
Payroll Tax	—	—	—	$2,150	$1,950	$4,260	—	—	—	$2,000
Total Provincial Taxes	**$10,409**	**$8,725**	**$12,298**	**$15,144**	**$14,880**	**$21,831**	**$14,556**	**$15,349**	**$14,366**	**$14,132**
Total Taxes	**$27,804**	**$26,216**	**$29,717**	**$32,486**	**$32,263**	**$39,198**	**$31,892**	**$32,663**	**$31,693**	**$31,471**

Source: Derived by Canada West Foundation from 2010/11 British Columbia Budget.

APPENDIX B
THE TAX MIX: SASKATCHEWAN'S TAX PROFILE

Introduction

Provincial revenues can be broken down into four primary sources including taxes, resource revenue, non-tax revenue, and federal transfers. As already noted, British Columbia, Alberta, and Saskatchewan all collect significant resource revenue. This reduces the share of the total revenue pie generated through taxation, and constitutes an inherent tax advantage over other provinces which collect little resource revenue. A key concern aside from the overall tax level is the tax mix or tax profile. The tax mix speaks to the types of taxes in use by government, and the degree to which certain taxes are relied upon more heavily than other taxes.

The Data

When considering the tax mix in Saskatchewan, it becomes evident that the province rests on a somewhat unique revenue base. The larger pattern is easily described. Saskatchewan relies less on personal income tax and provincial sales tax when compared to other provinces, and relies more on its basket of corporate taxes and the education property tax. When it comes to municipal property taxes, Saskatchewan sits in the middle of the pack.

One way to measure the tax profile is to calculate the percentage contribution of various taxes to the total tax revenue pie *(Figure B.1)*. In Saskatchewan, 29% of total tax revenue accrues from the personal income tax, which is a relatively small contribution considering most other provinces. In Saskatchewan, the provincial sales tax contributes about 17% of total tax revenues. This too is a small contribution when considering the other provinces. Saskatchewan, however, is more reliant on revenues produced by its various corporate taxes, which contributes 18% of total tax revenue. Only Quebec has a higher proportion of its total tax revenue coming from corporate taxes. At 12% of total tax revenue, education property taxes in Saskatchewan are also quite high.

A second way to measure the tax profile is to set the revenues produced by the various taxes against GDP *(Figure B.2)*. This analysis reveals much of the same finding. Saskatchewan relies less on personal income tax and sales taxes than most provinces, and more on corporate taxes and education property taxes.

FIGURE B.1: Tax Revenue Profile, 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Personal Income Tax	74.22%	32.96%	42.67%	28.52%	35.17%	32.52%	30.99%	32.39%	36.53%	35.98%	31.44%
General Sales Tax	10.58%	22.47%	0.00%	17.21%	24.24%	21.60%	23.53%	27.56%	27.21%	28.17%	28.88%
Corporate Taxation	**9.89%**	**5.42%**	**16.99%**	**18.18%**	**12.01%**	**13.65%**	**19.68%**	**6.68%**	**8.76%**	**6.60%**	**17.75%**
Fuel Tax	1.86%	6.95%	3.75%	6.57%	3.34%	3.41%	3.66%	5.48%	4.79%	5.66%	6.05%
Tobacco Tax	1.06%	2.97%	4.34%	3.41%	3.27%	1.09%	1.23%	2.56%	3.74%	4.45%	4.48%
Other Taxes	2.39%	4.04%	1.13%	2.41%	0.89%	1.54%	0.00%	0.22%	0.00%	0.40%	0.00%
Education Property Tax	0.00%	8.17%	8.38%	11.97%	10.98%	7.67%	2.94%	10.61%	3.41%	11.32%	0.00%
Municipal Property Tax	0.00%	17.01%	22.73%	11.73%	10.10%	18.52%	17.97%	14.49%	15.56%	7.41%	11.40%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Note: Federal personal income tax revenue includes the federal personal income tax, as well as all EI, CPP, and QPP premiums. The federal amount also includes 16.5% of the revenue from Quebec's personal income tax to control for the 16.5% federal personal income tax abatement. Quebec's PIT revenue was then reduced by 16.5% to be more comparable with other provinces. This approach was taken for all measurements of personal income tax revenue collected by governments. Further, all personal income tax revenue for Ontario includes the province's health care premium, and the same applies for British Columbia and Alberta. Data in various charts concerning tax rates and the personal income taxes payable federally include only the 16.5% Quebec abatement. Personal income taxes payable in Ontario include the health care premium but not in BC and Alberta.

Source: Derived by Canada West Foundation from the 2010/11 Federal and Provincial Budgets, the Dominion Bond Rating Service, and Statistics Canada.

FIGURE B.2: Tax Revenue as a % of GDP (2010/11)

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Personal Income Tax	11.96%	3.87%	3.34%	3.41%	4.59%	4.87%	4.93%	4.13%	5.37%	5.50%	3.29%
General Sales Tax	1.71%	2.64%	0.00%	2.06%	3.16%	3.23%	3.75%	3.52%	4.00%	4.30%	3.02%
Corporate Taxation	**1.59%**	**0.64%**	**1.33%**	**2.17%**	**1.57%**	**2.04%**	**3.13%**	**0.85%**	**1.29%**	**1.01%**	**1.86%**
Fuel Taxes	0.30%	0.82%	0.29%	0.79%	0.44%	0.51%	0.58%	0.70%	0.70%	0.86%	0.63%
Tobacco Taxes	0.17%	0.35%	0.34%	0.41%	0.43%	0.16%	0.20%	0.33%	0.55%	0.68%	0.47%
Municipal Property Tax	0.00%	2.00%	1.78%	1.40%	1.32%	2.77%	2.86%	1.85%	2.29%	1.13%	1.19%
Education Property Tax	0.00%	0.96%	0.66%	1.43%	1.43%	1.15%	0.47%	1.35%	0.50%	1.73%	0.00%
Other Taxes	0.39%	0.48%	0.09%	0.29%	0.12%	0.23%	0.00%	0.03%	0.00%	0.06%	0.00%
Total Taxes	**16.11%**	**11.75%**	**7.82%**	**11.95%**	**13.05%**	**14.96%**	**15.92%**	**12.76%**	**14.70%**	**15.28%**	**10.46%**
Resource Royalties	0.00%	1.63%	2.82%	2.96%	0.29%	0.03%	0.01%	0.19%	0.49%	0.00%	8.61%
Total Tax and Royalties	**16.11%**	**13.38%**	**10.64%**	**14.91%**	**13.34%**	**14.99%**	**15.93%**	**12.95%**	**15.19%**	**15.28%**	**19.07%**

Note: Federal personal income tax revenue includes the federal personal income tax, as well as all EI, CPP, and QPP premiums. The federal amount also includes 16.5% of the revenue from Quebec's personal income tax to control for the 16.5% federal personal income tax abatement. Quebec's PIT revenue was then reduced by 16.5% to be more comparable with other provinces. This approach was taken for all measurements of personal income tax revenue collected by governments. Further, all personal income tax revenue for Ontario includes the province's health care premium, and the same applies for British Columbia and Alberta. Data in various charts concerning tax rates and the personal income taxes payable federally include only the 16.5% Quebec abatement. Personal income taxes payable in Ontario include the health care premium but not in BC and Alberta.

Source: Derived by Canada West Foundation from the 2010/11 Federal and Provincial Budgets, the Dominion Bond Rating Service, and Statistics Canada.

APPENDIX C
PERSONAL INCOME TAX

Introduction

The personal income tax is the single largest tax revenue source for each province. This appendix presents data related to the personal income tax in Saskatchewan as compared to other provinces. Because personal income tax systems are complex, there are numerous data points worth exploring. The main report of the *Framework* commented on various aspects of Saskatchewan's provincial personal income tax system including structure and design, statutory tax rates and income thresholds, tax credits, the amount of income exempt from taxation, the marginal tax rate (MTR), the average tax rate (ATR), and progressivity.

The Data

Structure and Design: Saskatchewan maintains a three rate personal income tax (PIT) system, with the rate of tax progressing upwards as income rises *(Figure C.1).* British Columbia has a more complex system with five tax brackets. Alberta arguably has the most simple system with a single rate tax. In using the three rate structure, Saskatchewan reflects the broader provincial experience, and occupies the middle ground between Alberta's relatively simple system and BC's more complex system. It is also important to note that Saskatchewan, Alberta and Quebec are the only three provinces that do not complicate their PIT system with a high income surtax or a separate tax reduction calculation. As a result, Saskatchewan's three rate system tends to be less complex than that used by other provinces.

Statutory tax rates: Saskatchewan currently has the 2nd highest tax rate for the first income bracket, the 4th highest rate for the middle income bracket, and the 5th highest rate for the top income bracket *(Figure C.1).* When considering statutory tax rates, then, at no point is Saskatchewan in the provincial top half with the lowest rates of tax. Ontario and British Columbia have the lowest rates for the first income bracket, while Ontario and Alberta both have the lowest rates for the middle income and the top income brackets. However, there is also some alignment. For example, Saskatchewan and Alberta are very close in terms of the rate for the first income bracket (11% and 10%) and Saskatchewan and BC are very close when considering the rate for the top income bracket (15% and 14.7%). It is in the middle income brackets where larger differences emerge. Since each province converted from a "tax-on-tax" system (TOT) to a "tax-on-income" system (TONI), statutory rates of tax have fallen in many provinces *(Figure C.2).* Three groups of provinces emerge. The first group is comprised of British Columbia, New Brunswick, and Newfoundland and Labrador. Since 2001, these provinces have significantly reduced all of their statutory tax rates, anywhere from 2.00 percentage points up to almost 4.00 percentage points. The second group is comprised of Saskatchewan, Manitoba, and Quebec, where most statutory rates have also been reduced, but the reduction has been more modest. Alberta, PEI, and Nova Scotia are the third group, where statutory rates have generally remained stable.

Income thresholds: Saskatchewan fares much better when considering the income thresholds at which its various tax rates begin to apply. The first rate of tax, obviously, applies to the first $1 of taxable income. This is the starting point for every province. But in moving up to the next rate, Saskatchewan is in 1st place. With the second tax rate starting at $40,354, Saskatchewan allows more income to be taxed at the lower rate than any other province *(Figure C.1).* When considering the income at which the top rate begins to apply, Saskatchewan is in 3rd place at $115,297. Only New Brunswick and Nova Scotia have a higher income threshold for their top statutory rate of tax.

Tax credits: Saskatchewan is also in 1st place when considering the value of its various non-refundable tax credits, which lower the amount of personal income tax to be paid. The value of Saskatchewan's standard non-refundable tax credits in 2010 equal $3,960. The package includes a basic personal credit of $13,348, a spousal credit of $13,348, a senior's credit in the amount of $4,366, and a credit of $4,945 for each eligible child under 18 years of age. The base of these credits total $36,007 and are calculated at the first tax rate of 11%. Thus, the credits lower taxes payable by $3,960 *(Figure C.1).* This is slightly higher than the standard credits offered by Alberta ($3,835) and easily surpass those offered by Ontario ($1,055) and British Columbia ($819). Saskatchewan also employs a special Low Income Tax Credit.

When comparing personal income tax, analysts examine statutory rates of tax, the various income brackets at which those rates begin to apply, and the value of various refundable and non-refundable tax credits that lower the amount of taxes payable. While all of that is helpful, it is the interplay between these features that produce the actual tax bite. Other important factors to consider is the threshold at which tax becomes payable, the top marginal tax rate (MTR) including any surtaxes that apply, the average tax rate (ATR) across various income levels, and finally, the personal income tax take as a percentage of GDP.

Taxable income thresholds: A key question, particularly for those with low and moderate incomes, is the point where personal income tax becomes payable. For 2010, a single taxpayer with no dependents starts paying tax in Saskatchewan at $14,130 *(Figure C.3).* This puts Saskatchewan in 6th place. Both British Columbia and Alberta offer the highest income exemption from tax for the single taxpayer at $18,860 and $17,850, respectively. When considering a single senior with no dependents, Saskatchewan moves into 3rd place. Again, only British Columbia and Alberta exempt more income from tax for a senior citizen. It is married taxpayers with children—whether a single income family or a two income family—where Saskatchewan has a clear competitive edge. A single income family with two children starts paying tax in Saskatchewan at $39,030 compared to $35,880 in Alberta and $25,120 in British Columbia. A dual income family with two children starts paying tax in Saskatchewan at $38,850 compared to $34,883 in Alberta and $31,433 in British Columbia. In Canada, Saskatchewan offers the best tax deal for families. This is a direct function of the sizeable child tax credit in the system.

Top marginal tax rate: The top marginal tax rate (MTR) is a key consideration for those with higher incomes. This rate combines the top statutory rate with any high income surtaxes and expresses that in a single percentage. The percentage tells how much tax is due on the last dollar when taxed at the highest possible tax rate. In 2010, Saskatchewan has the 6th highest marginal effective tax rate *(Figure C.4).* Alberta is in first place with its single tax rate of 10%. All other provinces are considerably higher, especially Quebec (20.04%) and Nova Scotia (21%). With a top marginal tax rate of 15%, Saskatchewan essentially falls in the middle, along with New Brunswick (14.7%) and British Columbia (14.7%). Both Manitoba (17.4%) and Ontario (17.41%) are on the higher end. For most provinces, the top MTR reached a peak in the late 1990s during the time deficits were being closed and have fallen since that period. In Saskatchewan, the

MTR fell from a high of 20.63% in 1997 to 15% in 2010, which translates into a 5.63 percentage point drop. This puts Saskatchewan in 4th place. British Columbia is in 1st place with the largest drop at 8.15 percentage points, followed by Newfoundland and Labrador at 7.61, and New Brunswick at 5.74. Alberta is just slightly behind Saskatchewan at 5.06 percentage points.

Average tax rate: The average tax rate (ATR) collapses all statutory rates, income thresholds, exemptions, and credits into one simple percentage that reflects the amount of personal income tax paid by different types of taxpayers at a specified level of income. This is a very useful measure, but with ten provinces in view, numerous income levels, and several different types of taxpayers, this analysis yields a formidable amount of data. To get a handle on the essence, the average tax rate at all levels of income can be totaled, and then a median calculated in each province for a single taxpayer, a senior citizen, a single income family with two children, and a dual income family with two children. The provinces can then be ranked as to which generally levies lower personal income tax and which generally levies higher tax.

In Saskatchewan, for example, single taxpayers with an income of $10,000 pay no tax *(Figure C.5)*. The average effective tax rate is 0% *(Figure C.6)*. Single taxpayers earning $20,000 will pay $604 in personal income tax—an average effective tax rate of 3.02%. At $30,000 of income, single taxpayers will pay $1,630 in tax—an average effective tax rate of 5.43%. As income rises, so does the average effective tax rate. At $200,000, the single taxpayer will pay $25,099 in provincial personal income tax—an average effective tax rate of 12.55%. Across all income levels, these separate ATRs can be totaled, a median calculated, and then comparisons made.

When it comes to single taxpayers, the average ATR across all levels of income for Saskatchewan is 7.61%, which puts the province in 4th place. British Columbia is in 1st place, Alberta is in 2nd place, and Ontario is in 3rd place. When it comes to a single senior with no dependents, Saskatchewan is likewise in 4th place, with British Columbia, Alberta, and Ontario again having the lowest average ATR across the various income levels. Considering a one-income family with two children, Saskatchewan moves into 3rd place with an average ATR across all income groups of 4.18%. Alberta comes in 1st and BC comes in 2nd. Considering a dual income family with two children, Saskatchewan falls back to 4th place again, with an average ATR of 3.56%. British Columbia emerges in 1st place, followed by Alberta in 2nd place, and Ontario in 3rd place.

It is important to note that the discussion above excludes the health care premiums payable in British Columbia. For 2010, these premiums are $684 annually for a single person and $1,368 for a family. Ontario's health care premium is conducted through the personal income tax system, and it is included. Obviously, keeping health care premiums out of the discussion gives BC an edge in the rankings. However, if the BC health care premium is added into the average ATR, the rankings do change. When it comes to a single taxpayer and a senior, Alberta and BC simply switch spots. Alberta comes in 1st and BC comes in 2nd. All other rankings are unaffected. When it comes to families with children, however, the rankings see more change and Saskatchewan moves up. For a one income family, Alberta is in 1st place followed by Saskatchewan in 2nd place, Ontario in 3rd place, and BC in 4th place. Considering a dual income family, Alberta is again in 1st place, followed by Ontario in 2nd place, Saskatchewan in 3rd place, and BC in 4th place.

The data can also be used to see changes in the average tax rate (ATR) over time. To run the analysis, we assessed ATR for a single person earning $30,000 in 1990 and $45,000 in 2010; a single senior earning $20,000 in 1990 and $30,000 in 2010; a single income family with two children earning $50,000 in 1990 and $75,000 in 2010; and a dual income family with two children earning $75,000 in 1990 and $112,500 in 2010. These income levels approximate average household incomes in 1990 and 2010. For most of these taxpayers, ATRs have fallen just as the MTRs above *(Figure C.7)*. Considering single taxpayers, Saskatchewan is in 5th place, with its ATR falling by 16.1%. British Columbia and Ontario are in 1st and 2nd spot. However, Alberta is very close to Saskatchewan with its ATR falling by 16.4%. When considering a single senior and the one income family, Saskatchewan moves to 3rd spot, with the ATR falling by 42.2% and 29.0% respectively. Only British Columbia and Alberta saw bigger drops than Saskatchewan. Considering the dual income family, BC places 1st at a 40.0% reduction in the ATR, followed by Ontario at 24.1% and Newfoundland and Labrador at 22.9%. With respect to this last group, Saskatchewan is ahead of Alberta's 12.2% drop.

Progressivity: Progressivity analysis can very complex, and must factor in statutory rates of tax, income thresholds, exemptions, and non-refundable tax credits. Such a detailed analysis forms a study in itself, and is outside the scope of this effort. However, a relative measure of progressivity can be arrived at simply by measuring the spread between the first and the last statutory tax rate. The wider the spread the more progressive the system, at least with respect to statutory tax rates. Using this simple metric, four groups of provinces emerge. The first group is comprised of British Columbia, Nova Scotia, and Ontario—those with more progressive systems. The spread between the first rate and the top rate in BC is 191% *(Figure C.1)*. In Nova Scotia, the spread is 139%. In Ontario, the spread is 121%. The second group is comprised of Newfoundland and Labrador, PEI, and Manitoba, all with spreads in the range of 61% (Manitoba) to 87% (Newfoundland and Labrador). In the third group, are New Brunswick and Quebec, with spreads of 54% and 50% respectively. The least progressive systems are found in Saskatchewan and Alberta. In Saskatchewan, the top rate is 36% of the first rate, while in Alberta, the spread is 0% because the same rate of tax applies across all levels of taxable income. It should be remembered, however, that just because Alberta has a single rate system, that there is still progressivity. Because of the sizeable basic and spousal exemptions, the effective rate of tax does in fact rise as income rises. For example, a single taxpayer making $30,000 in Alberta will pay 3.78% of that income in provincial income tax *(Figure C.6)*. A single taxpayer making $100,000 will pay 8.03% of that income in provincial income tax. Even a single rate tax can be progressive, although it is usually less progressive than systems with several graduated rates of tax.

Percentage of GDP: A final way to assess competitiveness with personal income tax is to simply set the total provincial personal income tax revenue collected against GDP, which yields a ratio of the revenue collected against the comprehensive tax base of the province *(Figure C.8)*. These data do include the health care premium for both BC and Ontario. On this measure, Saskatchewan tends to compare favourably. For 2010, Saskatchewan is in 2nd place. Personal income tax revenue, as a percentage of GDP in Saskatchewan, is estimated at 3.41%. Only Alberta has a lower tax-to-GDP score at 3.34%. British Columbia is in third place at 3.87%. Again, small differences in the tax-to-GDP ratio represent significant amounts. For Saskatchewan, a 0.1% increase in the ratio equates to $58 million.

Personal income tax revenues collected as a percentage of GDP have also changed since the peaks recorded in the late 1990s. Considering how much the ratio has fallen, Saskatchewan emerges in 3rd place. In Saskatchewan, personal income taxes as a percent of GDP fell from a high of 5.07% in 1992/93 to 3.41% in 2010—a 1.66 percentage point drop in the ratio. The drop in Newfoundland and Labrador was 2.64 percentage points followed by British Columbia at 1.94 percentage points.

FIGURE C.1 Personal Income Tax Structure, Statutory Rates, Major Credits, and Special Features, 2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Rates of Personal Income Tax and Tax Brackets											
Tax Bracket 1	15.00%	5.06%	10.00%	11.00%	10.80%	5.05%	13.36%	9.30%	8.79%	9.80%	7.70%
Tax Bracket 2	22.00%	7.70%	—	13.00%	12.75%	9.15%	16.70%	12.50%	14.95%	13.80%	12.65%
Tax Bracket 3	26.00%	10.50%	—	15.00%	17.40%	11.16%	20.04%	13.30%	16.67%	16.70%	14.40%
Tax Bracket 4	29.00%	12.29%	—	—	—	—	—	14.30%	17.50%	—	—
Tax Bracket 5	—	14.70%	—	—	—	—	—	—	21.00%	—	—
Taxable Income Thresholds for Each Tax Bracket											
Tax Bracket 1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1
Tax Bracket 2	$40,970	$35,859	—	$40,354	$31,000	$37,106	$38,570	$36,421	$29,590	$31,984	$31,278
Tax Bracket 3	$81,941	$71,719	—	$115,297	$67,000	$74,214	$77,140	$72,843	$59,180	$63,969	$62,556
Tax Bracket 4	$127,021	$82,342	—	—	—	—	—	$118,427	$93,000	—	—
Tax Bracket 5	—	$99,987	—	—	—	—	—	—	$150,000	—	—
Value of Major Non-Refundable Tax Credits											
Personal Amount	$1,557	$557	$1,683	$1,468	$878	$452	$2,101	$816	$724	$755	$603
Spousal Amount	$1,557	$488	$1,683	$1,468	$878	$383	—	$693	$614	$642	$493
Age Amount	$967	$214	$469	$480	$403	$220	—	$399	$353	$369	$334
Qualifying Child	$315	—	—	$544	—	—	—	—	$105	$118	—
Special Features											
Personal Amount	No	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes
Spousal Amount	No	No	No	No	No	Yes	No	No	No	Yes	No

Note: All statutory tax rates for Quebec have been reduced by 16.5% to control for the Federal Tax Abatement. This makes Quebec's tax rates comparable with other provinces. Threshold amounts for each tax bracket refer to the level of taxable income at which each rate begins to take effect. The value of major non-refundable tax credits is the amount by which each credit reduces the taxes payable. Tax Reduction refers to a special formula that can reduce taxes payable for persons with low incomes. Surtaxes in Ontario can reach a maximum of 56% of basic provincial tax payable, while in PEI the surtax is 10%.

Source: Derived by Canada West Foundation from PriceWaterhouseCoopers (Tax Facts and Figures 2010), Canada Revenue Agency, and Canadian Tax Tips (http://www.taxtips.ca).

FIGURE C.2: Statutory Rates of Personal Income Tax, 1990-2010
(Rates in Effect During Various Time Periods for Each Government)

Federal	1990-99	2000	2001-04	2005	2006	2007-10						
Tax on Income												
Tax Bracket 1	17.00	17.00	16.00	15.00	15.25	15.00						
Tax Bracket 2	26.00	25.00	22.00	22.00	22.00	22.00						
Tax Bracket 3	29.00	29.00	26.00	26.00	26.00	26.00						
Tax Bracket 4			29.00	29.00	29.00	29.00						
BC	1990-91	1992	1993-95	1996	1997	1998	1999	2000	2001	2002-06	2007	2008-10
Tax on Tax	51.50	52.00	52.50	52.00	51.00	50.50	49.50					
Tax on Income												
Tax Bracket 1								8.40	7.30	6.05	5.70	5.06
Tax Bracket 2								12.40	10.50	9.15	8.65	7.70
Tax Bracket 3								14.35	13.70	11.70	11.10	10.50
Tax Bracket 4									15.70	13.70	13.00	12.29
Tax Bracket 5									16.70	14.70	14.70	14.70
Alberta	1990-91	1992	1993-97	1998-00	2001-10							
Tax on Tax	46.50	46.00	45.50	44.00								
Tax on Income					10.00							
Saskatchewan	1990-97	1998	1999-00	2001	2002	2003-10						
Tax on Tax	50.00	49.00	48.00									
Tax on Income												
Tax Bracket 1				11.50	11.25	11.00						
Tax Bracket 2				13.50	13.25	13.00						
Tax Bracket 3				16.00	15.50	15.00						
Manitoba	1990-97	1998	1999	2000	2001	2002	2003	2004-05	2006	2007	2008	2009-10
Tax on Tax	52.00	51.00	48.50									
Tax on Income												
Tax Bracket 1				8.00	10.90	10.90	10.90	10.90	10.90	10.90	10.90	10.80
Tax Bracket 2				12.22	16.20	15.40	14.90	14.00	13.50	13.00	12.75	12.75
Tax Bracket 3				13.63	17.40	17.40	17.40	17.40	17.40	17.40	17.40	17.40
Ontario	1990-91	1992	1993-95	1996	1997	1998	1999	2000	2001	2002-09	2010	
Tax on Tax	53.00	54.50	58.00	56.00	48.00	42.75	39.50					
Tax on Income												
Tax Bracket 1								6.37	6.16	6.05	5.05	
Tax Bracket 2								9.62	9.22	9.15	9.15	
Tax Bracket 3								11.16	11.16	11.16	11.16	
Quebec	1990-97	1998-99	2000	2001	2002-10							
Tax on Tax	13.36	16.70	15.87	14.20	13.36							
Tax on Income												
Tax Bracket 1	15.87	19.21	18.79	17.74	16.70							
Tax Bracket 2	17.54	21.71	20.88	20.46	20.04							
Tax Bracket 3	19.21											
Tax Bracket 4	20.04											

FIGURE C.2 (continued): Statutory Rates of Personal Income Tax, 1990-2010
(Rates in Effect During Various Time Periods for Each Government)

New Brunswick	1990-92	1993	1994-96	1997	1998	1999	2000	2001-06	2007-08	2009	2010
Tax on Tax	60.00	62.00	64.00	63.00	61.00	60.00					
Tax on Income											
Tax Bracket 1							9.94	9.68	10.12	9.65	9.30
Tax Bracket 2							15.21	14.82	15.48	14.50	12.50
Tax Bracket 3							16.90	16.52	16.80	16.00	13.30
Tax Bracket 4								17.84	17.95	17.00	14.30

Nove Scotia	1990-96	1997	1998-99	2000-03	2004-09	2010
Tax on Tax	59.50	58.50	57.50			
Tax on Income						
Tax Bracket 1				9.77	8.79	8.79
Tax Bracket 2				14.95	14.95	14.95
Tax Bracket 3				16.67	16.67	16.67
Tax Bracket 4					17.50	17.50
Tax Bracket 5						21.00

PEI	1990	1991	1992-98	1999	2000	2001-10
Tax on Tax	57.00	58.00	59.50	58.50	57.50	
Tax on Income						
Tax Bracket 1						9.80
Tax Bracket 2						13.80
Tax Bracket 3						16.70

Newfoundland	1990-91	1992	1993-99	2000	2001-06	2007	2008	2009	2010
Tax on Tax	62.00	64.50	69.00	62.00					
Tax on Income									
Tax Bracket 1					10.57	9.64	8.20	7.70	7.70
Tax Bracket 2					16.16	14.98	13.30	12.80	12.65
Tax Bracket 3					18.02	17.26	16.00	15.50	14.40

Note: All statutory tax rates for Quebec have been reduced by 16.5% to control for the Federal Tax Abatement. This makes Quebec's tax rates comparable with other provinces.

Source: Derived by Canada West Foundation from PriceWaterhouseCoopers (Tax Facts and Figures 2010), Canada Revenue Agency, and Canadian Tax Tips (http://www.taxtips.ca).

FIGURE C.3: Amount of Tax Free Income Under Federal and Provincial Personal Income Tax Systems, 2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Single (No Dependents)	$15,530	$18,860	$17,850	$14,130	$10,610	$13,780	$16,290	$15,300	$12,300	$10,820	$16,030
Senior (Single, No Dependents)	$16,840	$21,393	$22,823	$19,873	$15,940	$19,623	$15,960	$18,653	$15,430	$14,030	$17,150
Married (One Income, 2 Children)	$27,700	$25,120	$35,880	$39,030	$26,740	$20,010	$35,070	$25,910	$22,750	$21,430	$26,820
Married (Two Incomes 2 Children)	$27,633	$31,433	$34,883	$38,850	$26,583	$33,367	$35,933	$23,083	$21,617	$20,217	$20,567

Note: These data factor in all available provincial deductions, refundable and non-refundable tax credits, and any reduction in personal income tax for low incomes. The data constitute the income threshold at which the first $1 in federal and provincial personal income tax is payable.

Source: Derived by Canada West Foundation from Canadian Tax Tips (http://www.taxtips.ca).

FIGURE C.4: Top Marginal Tax Rate (MTR) of Personal Income Tax, 1990-2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	31.32%	14.94%	15.06%	18.48%	17.42%	16.91%	20.04%	17.40%	18.98%	18.18%	17.98%
1991	31.90%	16.43%	15.06%	18.98%	17.42%	17.21%	20.04%	19.14%	18.98%	18.50%	17.98%
1992	31.76%	18.10%	14.91%	19.80%	17.42%	18.02%	20.04%	18.79%	18.98%	18.98%	18.71%
1993	31.32%	19.79%	14.75%	20.63%	17.42%	21.03%	20.04%	19.42%	18.98%	18.98%	20.01%
1994	31.32%	22.84%	14.75%	20.63%	17.42%	21.87%	20.04%	20.04%	25.88%	18.98%	20.01%
1995	31.32%	22.84%	14.75%	20.63%	17.42%	21.87%	20.04%	20.04%	18.98%	18.98%	20.01%
1996	31.32%	22.85%	14.75%	20.63%	17.42%	21.60%	20.04%	20.04%	18.98%	18.98%	22.01%
1997	31.32%	22.85%	14.75%	20.63%	17.42%	20.32%	20.04%	19.73%	18.66%	18.98%	22.01%
1998	31.32%	22.85%	14.28%	20.26%	17.13%	18.97%	21.71%	19.11%	18.34%	18.98%	22.01%
1999	30.89%	21.39%	14.28%	19.90%	16.39%	17.87%	21.71%	18.79%	18.34%	18.66%	22.01%
2000	30.45%	20.81%	13.26%	19.28%	15.94%	17.41%	20.88%	18.32%	18.34%	18.34%	20.86%
2001	29.00%	16.70%	10.00%	16.00%	17.40%	17.41%	20.46%	17.84%	18.34%	18.37%	19.64%
2002	29.00%	14.70%	10.00%	15.50%	17.40%	17.41%	20.04%	17.84%	18.34%	18.37%	19.64%
2003	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	17.84%	18.34%	18.37%	19.64%
2004	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	17.84%	19.25%	18.37%	19.64%
2005	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	17.84%	19.25%	18.37%	19.64%
2006	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	17.84%	19.25%	18.37%	19.64%
2007	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	17.95%	19.25%	18.37%	18.04%
2008	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	17.95%	19.25%	18.37%	16.00%
2009	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	17.00%	19.25%	18.37%	15.50%
2010	29.00%	14.70%	10.00%	15.00%	17.40%	17.41%	20.04%	14.30%	21.00%	18.37%	14.40%

Note: The top marginal tax rate (MTR) is the amount of tax to be paid, expressed as a single percentage, on the last dollar of taxable income earned at the highest possible prevailing rate. This calculation of MTR is comprehensive, and includes various flat taxes and special surtaxes that also apply. For Quebec, provincial rates have been reduced by 16.5% to ensure more accurate comparisons. Residents of Quebec pay 16.5% less tax to the federal government than residents of other provinces This recognizes the fact that the Government of Quebec has opted out of several federal programs and provides similar programs provincially. Thus, taxpayers in Quebec pay 16.5% less federal tax and more provincial tax. Reducing Quebec's personal income tax rates by 16.5% assumes they pay the same federal tax as other Canadians, and makes Quebec's provincial rates more comparable. Adding the federal and provincial marginal effective tax rates together yields a total combined rate that would apply in each province.

Source: Derived by Canada West Foundation from the Canadian Tax Foundation, Finances of the Nation (1990-2009), tax forms published by the Canada Revenue Agency (1990-2009) and data at Canadian Tax Tips (http://www.taxtips.ca)..

FIGURE C.5: Personal Income Taxes Paid at Various Levels of Income, 2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Single Taxpayer (No Dependents)											
$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$20,000	$1,118	$91	$201	$604	$1,127	$500	$507	$550	$882	$1,090	$847
$30,000	$2,516	$869	$1,134	$1,630	$2,164	$1,271	$1,877	$1,718	$1,778	$2,006	$1,566
$40,000	$3,916	$1,450	$2,068	$2,657	$3,347	$2,011	$3,509	$2,786	$3,214	$3,241	$2,716
$50,000	$5,988	$2,199	$3,026	$3,905	$4,578	$3,055	$5,166	$3,997	$4,673	$4,580	$3,949
$60,000	$8,188	$2,969	$4,026	$5,205	$5,853	$3,970	$6,803	$5,247	$6,182	$5,960	$5,214
$70,000	$10,388	$3,739	$5,026	$6,505	$7,267	$4,941	$8,440	$6,497	$7,849	$7,515	$6,610
$80,000	$12,588	$4,742	$6,026	$7,805	$9,007	$6,396	$10,152	$7,805	$9,516	$9,185	$8,050
$90,000	$15,110	$5,928	$7,026	$9,105	$10,747	$8,137	$12,134	$9,135	$11,183	$10,855	$9,490
$100,000	$17,710	$7,158	$8,026	$10,405	$12,487	$9,878	$14,105	$10,465	$12,845	$12,527	$10,930
$200,000	$45,899	$21,858	$18,026	$25,099	$29,887	$27,288	$33,456	$24,581	$31,182	$30,897	$25,330
Average	**$11,220**	**$4,637**	**$4,962**	**$6,629**	**$7,860**	**$6,132**	**$8,741**	**$6,616**	**$8,119**	**$7,987**	**$6,791**
Single Senior Aged 65 Years (No Dependents)											
$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$20,000	$176	$0	$0	$15	$411	$39	$391	$167	$531	$738	$552
$30,000	$1,676	$697	$659	$1,115	$1,725	$1,080	$1,793	$1,397	$1,486	$1,747	$1,388
$40,000	$3,344	$1,377	$1,784	$2,338	$3,248	$1,911	$3,995	$2,639	$3,113	$3,194	$2,765
$50,000	$5,702	$2,223	$2,934	$3,796	$4,742	$3,052	$5,951	$4,029	$4,740	$4,721	$4,208
$60,000	$8,127	$3,066	$4,084	$5,261	$6,059	$4,043	$7,640	$5,418	$6,338	$6,147	$5,605
$70,000	$10,923	$3,798	$5,139	$6,524	$7,388	$4,989	$9,238	$6,614	$7,923	$7,620	$6,994
$80,000	$14,427	$4,629	$5,988	$7,629	$8,867	$6,182	$10,709	$7,718	$9,340	$9,039	$8,277
$90,000	$17,980	$5,596	$6,838	$8,734	$10,346	$7,661	$12,479	$8,848	$10,757	$10,459	$9,560
$100,000	$21,690	$6,641	$7,688	$9,839	$11,825	$9,141	$14,222	$9,979	$12,173	$11,878	$10,843
$200,000	$50,598	$21,041	$17,567	$24,250	$29,012	$26,338	$33,582	$23,870	$30,091	$29,664	$25,757
Average	**$12,240**	**$4,461**	**$4,789**	**$6,318**	**$7,602**	**$5,858**	**$9,091**	**$6,425**	**$7,863**	**$7,746**	**$6,904**
Married Taxpayer (One Income, Dependent Spouse and Two Children Under 18)											
$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$20,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$30,000	$881	$380	$0	$0	$394	$300	$0	$479	$984	$1,214	$739
$40,000	$2,281	$961	$385	$101	$1,775	$865	$1,096	$1,761	$2,600	$2,598	$2,223
$50,000	$4,352	$1,711	$1,344	$1,349	$3,145	$2,672	$3,335	$3,273	$4,059	$3,938	$3,456
$60,000	$6,552	$2,481	$2,344	$2,649	$4,517	$3,587	$4,972	$4,554	$5,568	$5,318	$4,721
$70,000	$8,752	$3,251	$3,344	$3,949	$6,029	$4,502	$6,609	$5,804	$7,235	$6,873	$6,117
$80,000	$10,952	$4,253	$4,344	$5,249	$7,866	$5,868	$8,320	$7,112	$8,902	$8,543	$7,557
$90,000	$13,473	$5,440	$5,344	$6,549	$9,703	$7,539	$10,305	$8,442	$10,569	$10,213	$8,997
$100,000	$16,073	$6,670	$6,344	$7,849	$11,540	$9,280	$12,276	$9,772	$12,229	$11,883	$10,437
$200,000	$44,188	$21,370	$16,344	$22,543	$29,009	$26,689	$31,637	$23,888	$30,566	$30,191	$24,837
Average	**$9,773**	**$4,229**	**$3,618**	**$4,567**	**$6,725**	**$5,573**	**$7,141**	**$5,917**	**$7,519**	**$7,343**	**$6,280**

FIGURE C.5 (continued): Personal Income Taxes Paid at Various Levels of Income, 2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Married Taxpayer (Two Incomes and Two Children Under 18)											
$10,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$20,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$30,000	$0	$0	$9	$0	$413	$0	$0	$918	$1,044	$1,267	$976
$40,000	$683	$408	$570	$120	$1,618	$450	$1,092	$1,871	$1,864	$2,181	$1,695
$50,000	$2,083	$960	$1,336	$1,146	$2,765	$802	$3,142	$2,739	$2,710	$3,096	$2,413
$60,000	$3,483	$1,563	$2,269	$2,173	$3,957	$1,795	$4,515	$3,607	$3,900	$4,170	$3,221
$70,000	$4,955	$2,322	$3,202	$3,232	$5,141	$3,161	$5,975	$4,653	$5,090	$5,325	$4,237
$80,000	$6,793	$3,008	$4,147	$4,393	$6,357	$4,087	$7,509	$5,724	$6,439	$6,492	$5,105
$90,000	$8,673	$3,662	$5,120	$5,584	$7,661	$4,975	$9,052	$6,821	$7,911	$7,846	$6,193
$100,000	$10,553	$4,419	$6,094	$6,774	$8,965	$5,981	$10,605	$8,033	$9,396	$9,200	$7,437
$200,000	$33,945	$14,840	$16,052	$19,816	$24,974	$19,756	$28,559	$20,946	$25,678	$25,386	$18,285
Average	**$6,470**	**$2,835**	**$3,527**	**$3,931**	**$5,623**	**$3,728**	**$6,404**	**$5,028**	**$5,821**	**$5,906**	**$4,506**

Note: The amounts above are the taxes owing for each income level assuming taxpayers deduct the standard non-refundable tax credits, including the basic personal amount, spousal amount, age amount, contributions to EI, CPP, or QPP and any available credit for dependent children and a low income tax reduction. Specific refundable tax credits in some provinces are also included. Taxes in Quebec have been lowered by the 16.5% federal tax abatement to increase comparability with the other provinces.

Source: Derived by Canada West Foundation from Canadian Tax Tips (http://www.taxtips.ca).

FIGURE C.6: Average Effective Tax Rate (ATR) of Personal Income Tax, 2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Single Taxpayer (No Dependents)											
$10,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$20,000	5.59%	0.46%	1.01%	3.02%	5.64%	2.50%	2.54%	2.75%	4.41%	5.45%	4.24%
$30,000	8.39%	2.90%	3.78%	5.43%	7.21%	4.24%	6.26%	5.73%	5.93%	6.69%	5.22%
$40,000	9.79%	3.63%	5.17%	6.64%	8.37%	5.03%	8.77%	6.97%	8.04%	8.10%	6.79%
$50,000	11.98%	4.40%	6.05%	7.81%	9.16%	6.11%	10.33%	7.99%	9.35%	9.16%	7.90%
$60,000	13.65%	4.95%	6.71%	8.68%	9.76%	6.62%	11.34%	8.75%	10.30%	9.93%	8.69%
$70,000	14.84%	5.34%	7.18%	9.29%	10.38%	7.06%	12.06%	9.28%	11.21%	10.74%	9.44%
$80,000	15.74%	5.93%	7.53%	9.76%	11.26%	8.00%	12.69%	9.76%	11.90%	11.48%	10.06%
$90,000	16.79%	6.59%	7.81%	10.12%	11.94%	9.04%	13.48%	10.15%	12.43%	12.06%	10.54%
$100,000	17.71%	7.16%	8.03%	10.41%	12.49%	9.88%	14.11%	10.47%	12.85%	12.53%	10.93%
$200,000	22.95%	10.93%	9.01%	12.55%	14.94%	13.64%	16.73%	12.29%	15.59%	15.45%	12.67%
Average	**12.49%**	**4.75%**	**5.66%**	**7.61%**	**9.19%**	**6.56%**	**9.85%**	**7.65%**	**9.27%**	**9.24%**	**7.86%**
Single Senior Aged 65 Years (No Dependents)											
$10,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$20,000	0.88%	0.00%	0.00%	0.08%	2.06%	0.20%	1.96%	0.84%	2.66%	3.69%	2.76%
$30,000	5.59%	2.32%	2.20%	3.72%	5.75%	3.60%	5.98%	4.66%	4.95%	5.82%	4.63%
$40,000	8.36%	3.44%	4.46%	5.85%	8.12%	4.78%	9.99%	6.60%	7.78%	7.99%	6.91%
$50,000	11.40%	4.45%	5.87%	7.59%	9.48%	6.10%	11.90%	8.06%	9.48%	9.44%	8.42%
$60,000	13.55%	5.11%	6.81%	8.77%	10.10%	6.74%	12.73%	9.03%	10.56%	10.25%	9.34%
$70,000	15.60%	5.43%	7.34%	9.32%	10.55%	7.13%	13.20%	9.45%	11.32%	10.89%	9.99%
$80,000	18.03%	5.79%	7.49%	9.54%	11.08%	7.73%	13.39%	9.65%	11.68%	11.30%	10.35%
$90,000	19.98%	6.22%	7.60%	9.70%	11.50%	8.51%	13.87%	9.83%	11.95%	11.62%	10.62%
$100,000	21.69%	6.64%	7.69%	9.84%	11.83%	9.14%	14.22%	9.98%	12.17%	11.88%	10.84%
$200,000	25.30%	10.52%	8.78%	12.13%	14.51%	13.17%	16.79%	11.94%	15.05%	14.83%	12.88%
Average	**12.76%**	**4.54%**	**5.29%**	**6.96%**	**8.63%**	**6.10%**	**10.37%**	**7.27%**	**8.87%**	**8.88%**	**7.89%**

FIGURE C.6 (continued): Average Effective Tax Rate (ATR) of Personal Income Tax, 2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Married Taxpayer (One Income, Dependent Spouse and Two Children Under 18)											
$10,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$20,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$30,000	2.94%	1.27%	0.00%	0.00%	1.31%	1.00%	0.00%	1.60%	3.28%	4.05%	2.46%
$40,000	5.70%	2.40%	0.96%	0.25%	4.44%	2.16%	2.74%	4.40%	6.50%	6.50%	5.56%
$50,000	8.70%	3.42%	2.69%	2.70%	6.29%	5.34%	6.67%	6.55%	8.12%	7.88%	6.91%
$60,000	10.92%	4.14%	3.91%	4.42%	7.53%	5.98%	8.29%	7.59%	9.28%	8.86%	7.87%
$70,000	12.50%	4.64%	4.78%	5.64%	8.61%	6.43%	9.44%	8.29%	10.34%	9.82%	8.74%
$80,000	13.69%	5.32%	5.43%	6.56%	9.83%	7.34%	10.40%	8.89%	11.13%	10.68%	9.45%
$90,000	14.97%	6.04%	5.94%	7.28%	10.78%	8.38%	11.45%	9.38%	11.74%	11.35%	10.00%
$100,000	16.07%	6.67%	6.34%	7.85%	11.54%	9.28%	12.28%	9.77%	12.23%	11.88%	10.44%
$200,000	22.09%	10.69%	8.17%	11.27%	14.50%	13.34%	15.82%	11.94%	15.28%	15.10%	12.42%
Average	**9.78%**	**4.05%**	**3.47%**	**4.18%**	**6.80%**	**5.39%**	**7.01%**	**6.22%**	**7.99%**	**7.83%**	**6.71%**
Married Taxpayer (Two Incomes and Two Children Under 18)											
$10,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$20,000	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$30,000	0.00%	0.00%	0.03%	0.00%	1.38%	0.00%	0.00%	3.06%	3.48%	4.22%	3.25%
$40,000	1.71%	1.02%	1.43%	0.30%	4.05%	1.13%	2.73%	4.68%	4.66%	5.45%	4.24%
$50,000	4.17%	1.92%	2.67%	2.29%	5.53%	1.60%	6.28%	5.48%	5.42%	6.19%	4.83%
$60,000	5.81%	2.61%	3.78%	3.62%	6.60%	2.99%	7.53%	6.01%	6.50%	6.95%	5.37%
$70,000	7.08%	3.32%	4.57%	4.62%	7.34%	4.52%	8.54%	6.65%	7.27%	7.61%	6.05%
$80,000	8.49%	3.76%	5.18%	5.49%	7.95%	5.11%	9.39%	7.16%	8.05%	8.12%	6.38%
$90,000	9.64%	4.07%	5.69%	6.20%	8.51%	5.53%	10.06%	7.58%	8.79%	8.72%	6.88%
$100,000	10.55%	4.42%	6.09%	6.77%	8.97%	5.98%	10.61%	8.03%	9.40%	9.20%	7.44%
$200,000	16.97%	7.42%	8.03%	9.91%	12.49%	9.88%	14.28%	10.47%	12.84%	12.69%	9.14%
Average	**5.86%**	**2.59%**	**3.41%**	**3.56%**	**5.71%**	**3.34%**	**6.31%**	**5.37%**	**6.04%**	**6.29%**	**4.87%**

Note: The average tax rate (ATR) is the amount of personal income tax payable at specific levels of income assuming taxpayers deduct the standard non-refundable tax credits, including the basic personal amount, spousal amount, age amount, contributions to EI, CPP, or QPP and any available credit for dependent children and a low income tax reduction. Specific refundable tax credits in some provinces are also included. Taxes in Quebec have been lowered by the 16.5% federal tax abatement to increase comparability with the other provinces.

Source: Derived by Canada West Foundation from Canadian Tax Tips (http://www.taxtips.ca).

FIGURE C.7: Percentage Change in Average Tax Rate by Family Type and Income Level, 1990 and 2010

Year	Income	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Single Taxpayer (No Dependents)												
1990	$30,000	14.0%	6.9%	6.7%	8.7%	8.9%	7.1%	12.0%	8.0%	7.9%	7.6%	8.3%
2010	$45,000	10.9%	4.0%	5.6%	7.3%	8.8%	5.5%	9.7%	7.5%	8.7%	8.7%	7.4%
Change	**50.0%**	**-22.1%**	**-42.0%**	**-16.4%**	**-16.1%**	**-1.1%**	**-22.5%**	**-19.2%**	**-6.3%**	**10.1%**	**14.5%**	**-10.8%**
Single Senior Aged 65 Years (No Dependents)												
1990	$20,000	6.4%	4.0%	3.9%	6.4%	4.0%	3.7%	6.5%	4.8%	4.6%	4.6%	5.3%
2010	$30,000	5.6%	2.3%	2.2%	3.7%	6.3%	3.6%	6.0%	4.9%	5.0%	5.8%	4.6%
Change	**50.0%**	**-12.5%**	**-42.5%**	**-43.6%**	**-42.2%**	**57.5%**	**-2.7%**	**-7.7%**	**2.1%**	**8.7%**	**26.1%**	**-13.2%**
Married Taxpayer (One Income, Dependent Spouse, and Two Children Under 18)												
1990	$50,000	17.6%	8.6%	8.3%	10.7%	10.7%	8.9%	11.5%	10.1%	10.0%	9.6%	10.4%
2010	$75,000	13.1%	5.0%	5.1%	7.6%	9.7%	6.9%	12.7%	8.6%	10.8%	10.3%	9.1%
Change	**50.0%**	**-25.6%**	**-41.9%**	**-38.6%**	**-29.0%**	**-9.3%**	**-22.5%**	**10.4%**	**-14.9%**	**8.0%**	**7.3%**	**-12.5%**

FIGURE C.7 (continued): Percentage Change in Average Tax Rate by Family Type and Income Level, 1990 and 2010

Year	Income	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Married Taxpayer (Two Incomes and Two Children Under 18)												
1990	$75,000	15.6%	8.0%	7.4%	10.7%	9.9%	8.3%	12.0%	9.4%	9.0%	9.0%	10.5%
2010	$112,500	11.7%	4.8%	6.5%	8.4%	9.4%	6.3%	11.2%	8.5%	10.1%	9.8%	8.1%
Change	**50.0%**	**-25.0%**	**-40.0%**	**-12.2%**	**-21.5%**	**-5.1%**	**-24.1%**	**-6.7%**	**-9.6%**	**12.2%**	**8.9%**	**-22.9%**

Note: All data are presented on a basis compatible with the figures produced by the Canadian Tax Foundation, and thus exclude some low income tax reduction calculations and other refundable and non-refundable credits that some provinces provide.

Source: Derived by Canada West Foundation from the Canadian Tax Foundation (Finances of the Nation) and Canadian Tax Tips (http://www.canadiantaxtips.ca)

FIGURE C.8: Personal Income Taxes Collected as a % of GDP (1989/90 to 2010/11)

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	11.36%	5.42%	4.40%	4.50%	4.41%	5.35%	5.75%	4.63%	4.92%	4.86%	4.52%
1990-91	12.35%	5.75%	4.38%	4.62%	4.75%	5.46%	6.31%	5.04%	5.37%	4.75%	4.94%
1991-92	13.27%	5.81%	4.75%	4.78%	5.07%	4.84%	6.37%	4.98%	5.42%	4.75%	4.88%
1992-93	12.96%	5.72%	4.28%	5.07%	4.46%	4.73%	6.03%	4.46%	4.79%	4.18%	4.98%
1993-94	12.41%	5.59%	4.09%	4.66%	4.95%	5.02%	6.38%	4.95%	4.96%	4.69%	5.18%
1994-95	12.41%	5.48%	4.09%	4.32%	4.54%	4.74%	6.13%	4.57%	4.73%	4.17%	4.64%
1995-96	12.54%	5.50%	4.09%	4.20%	4.88%	4.75%	6.12%	4.80%	4.60%	4.51%	5.20%
1996-97	12.83%	5.64%	4.13%	4.41%	4.97%	4.84%	6.16%	4.96%	4.88%	4.61%	5.93%
1997-98	12.94%	5.46%	4.23%	4.55%	4.81%	4.53%	6.45%	4.81%	4.90%	4.89%	5.16%
1998-99	13.11%	5.45%	4.88%	4.90%	5.83%	4.55%	6.55%	4.42%	4.64%	4.36%	4.88%
1999-00	13.22%	5.54%	4.91%	4.70%	5.04%	4.31%	6.01%	4.73%	4.97%	5.10%	4.97%
2000-01	13.18%	5.22%	3.43%	3.71%	5.16%	4.06%	6.09%	4.53%	4.98%	4.19%	4.49%
2001-02	12.52%	4.73%	3.44%	3.61%	4.72%	4.21%	5.52%	4.40%	4.92%	4.55%	4.28%
2002-03	12.65%	3.98%	3.82%	4.16%	4.47%	3.81%	5.39%	4.30%	5.00%	4.70%	4.08%
2003-04	12.48%	4.34%	3.26%	3.40%	4.59%	3.71%	5.23%	4.26%	4.68%	4.34%	4.05%
2004-05	12.31%	4.13%	2.93%	3.26%	4.64%	4.08%	5.19%	4.22%	4.90%	4.47%	3.95%
2005-06	12.10%	4.31%	3.14%	3.29%	4.68%	4.35%	5.05%	4.30%	5.03%	5.00%	3.70%
2006-07	12.16%	4.62%	3.59%	3.67%	4.73%	4.68%	5.47%	4.54%	5.29%	5.13%	3.40%
2007-08	11.84%	4.44%	3.60%	3.81%	4.69%	4.65%	5.24%	4.65%	5.40%	5.12%	2.75%
2008-09	11.67%	3.88%	3.25%	2.90%	4.83%	4.85%	4.96%	4.83%	5.32%	5.10%	2.88%
2009-10	11.75%	3.80%	3.30%	3.40%	4.72%	4.72%	4.82%	4.64%	5.41%	5.33%	3.56%
2010-11	11.96%	3.87%	3.34%	3.41%	4.59%	4.87%	4.93%	4.13%	5.37%	5.50%	3.29%

Note: Federal personal income tax includes Employment Insurance and Canada Pension Plan premiums, as well as premiums paid by Quebecers to the Quebec Pension Plan. Quebec's personal income tax revenue was reduced by 16.5%, which was added to the federal personal income tax amount. Quebecers pay 16.5% less federal personal income tax than other Canadians but more provincial personal income tax than other Canadians because their province delivers several programs that are provided federally to other Canadians. These adjustments improve data comparability between provinces. Also, health care premiums charged in British Columbia and Ontario (and in Alberta from 1989/90 to 2008/09) were added. This improves data comparability as well. All of the items mentioned in the note for *Figure B.1* and *B.2* apply here as well.

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), and Statistics Canada.

APPENDIX D
CORPORATE TAXATION

Introduction

Provincial taxation of business and corporations involves four separate taxes including the corporate income tax (CIT), the corporate capital tax (CCT), the taxation of insurance premiums, and corporate payroll taxes. The purpose of this appendix is to provide detailed data concerning the current competitive landscape with respect to these taxes *(Figure D.1)* as well as historical developments and future trends *(Figure D.2 through Figure D.10).*

The Data

1) Corporate Income Tax Rates

- *General CIT Rate:* In western Canada, Saskatchewan and Manitoba share the highest general CIT rates, while Alberta and British Columbia have the lowest rates among all provinces *(Figure D.2).* Corporate income taxes have seen considerable movement, and the competitive situation has changed dramatically from the high tax years of the 1990s. Bigger changes are in store across the next four years. Many of these anticipated changes will hit on Saskatchewan's competitive tax position. British Columbia has plans to lower its general CIT rate from 10.5% to 10% in 2011. Manitoba has announced it would pursue lowering its rate from 12% to 11% by 2011. Ontario has announced plans to move its rate from 14% down to 10% by 2014. New Brunswick is on track to achieving the lowest general CIT rate in Canada by moving its rate from 12% to 8% by 2013. Without any changes in Saskatchewan's rate, the province will have the highest general CIT rate in Western Canada, and will be exceeded only by Nova Scotia, PEI, and Newfoundland and Labrador nationally.

- *Small Business CIT Rate:* Saskatchewan has the highest small business CIT rate in western Canada *(Figure D.3).* Many provinces have also drawn up plans to lower their small business rate. These provinces include British Columbia, Manitoba, Ontario, Nova Scotia, and Newfoundland and Labrador. By 2014, Saskatchewan will be one of five provinces with the highest small business CIT rates.

- *Manufacturing and Processing CIT Rate:* Saskatchewan is one of three provinces that currently employs a special CIT rate for corporations active in manufacturing and processing (M&P). In Saskatchewan, the rate is 10%. With this rate, Saskatchewan joins Alberta for the lowest CIT rates for this sector *(Figure D.4).* The standard practice of many provinces in the past has been to lower their general CIT rate until it matched their special M&P rate, and then pursue further reductions on the new merged rate.

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2) Corporate Capital Tax (CCT) Rates

- *General CCT Rate:* In western Canada, Manitoba is the only province that currently levies a general corporate capital tax. Alberta has never levied the tax, British Columbia eliminated the tax in 2003, and Saskatchewan eliminated it effective for 2010 *(Figure D.5).* For those using the general corporate capital tax, the trend was to increase the tax in the early and mid-1990s followed by a a period where rates then began to fall. By 2013, no province in Canada will levy a general corporate capital tax.

- *Financial CCT Rate:* All provinces except Alberta levy a corporate capital tax on financial corporations *(Figure D.6).* In Canada, the rates are lowest in Ontario and Quebec. The biggest change here will occur in 2011, when British Columbia, Ontario, and Quebec are scheduled to eliminate the tax. That will leave Saskatchewan and Manitoba, and all the Atlantic provinces, as the only ones still using the tax. What is more, Saskatchewan will levy this tax at a higher rate than Manitoba. While the rate in Saskatchewan will be lower than most Atlantic provinces, that is of small comfort given a growing competitive gap with British Columbia, Alberta, Manitoba, and Ontario.

3) Insurance Premiums Tax Rates

- *Personal Premiums:* Every province levies a tax on the value of insurance premiums sold within the province, but rates differ between personal insurance (e.g., disability, life insurance) and property (e.g., automobiles, homes). With respect to the tax on premiums for personal insurance, there are two groups of provinces. The first group levies the tax at 2% and includes British Columbia, Alberta, Manitoba, Ontario, Quebec, and New Brunswick *(Figure D.7).* The second group levies the tax at levels between 3% and 4% and includes Saskatchewan, Nova Scotia, PEI, and Newfoundland and Labrador.

- *Property Premiums:* When it comes to the tax on property insurance premiums, there are three groupings. Alberta, Manitoba, Quebec, and New Brunswick levy the lowest tax at 3% *(Figure D.8).* A second group—Saskatchewan, Ontario, Nova Scotia, PEI, and Newfoundland and Labrador—levy the tax between 3% and 4%. BC levies the highest tax at 4.4%. Of all taxation on corporations, the taxes on insurance premiums have been the most stable. Only Saskatchewan and PEI have increased rates on personal premiums over the 1990 to 2010 period. Only British Columbia, Saskatchewan, and PEI have increased the taxes on property premiums.

4) Corporate Payroll Tax Rates

- General corporate payroll taxes are not used in most provinces, but they are in play in Manitoba, Ontario, Quebec, and Newfoundland and Labrador *(Figure D.9).* The top payroll tax rate has not changed at all since 1990 for Ontario, but they did increase in both Quebec and Newfoundland and Labrador. The top payroll tax rate has gone down slightly in Manitoba, moving from 2.25% in to 2.15% in 1999. Given the negative impact of payroll taxes on job creation, those provinces with the tax lose a competitive edge.

5) All Corporate Tax Revenue as a Percentage of GDP

- *The Current Context:* Based on data contained in the 2010 Saskatchewan budget, all corporate tax revenue as a percentage of GDP in Saskatchewan is estimated at 2.17% for 2010/11 *(Figure D.10)*. This is the highest corporate tax-to-GDP ratio among the western provinces, and the second highest in the country. Only Quebec collects more corporate tax revenue as a percentage of GDP at 3.13%.

- *The Historical Context and Future Trends:* Corporate tax revenue as a percentage of GDP can vary widely from year to year, reflecting the ups and downs of the business cycle and the inherent volatility of corporate profits as a tax base. Of concern for Saskatchewan is that historically the province tended to collect corporate tax revenue in amounts that were generally in line with the other western provinces. However, in the last five years, Saskatchewan has tended to collect more corporate tax. While this is certainly a function of a strong economy and strong corporate profits, it is also true that corporate tax rates have continued to move downward in the other western provinces while they have remained more static in Saskatchewan.

FIGURE D.1: Summary Data on Corporate Taxes, 2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Corporate Income Tax (CIT) Rates											
General Rate	18.00%	10.50%	10.00%	12.00%	12.00%	14.00%	11.90%	12.00%	16.00%	16.00%	14.00%
M&P Rate	18.00%	10.50%	10.00%	10.00%	12.00%	12.00%	11.90%	12.00%	16.00%	16.00%	5.00%
Small Business Rate	11.00%	2.50%	3.00%	4.50%	1.00%	5.50%	8.00%	5.00%	5.00%	1.00%	5.00%
Threshold for Small	$0.5M	$0.5M	$0.5M	$0.5M	$0.4M	$0.5M	$0.5M	$0.5M	$0.4M	$0.5M	$0.5M
General Corporation Capital (CCT) Rates											
First CCT Rate	—	—	—	—	0.10%	0.15%	0.12%	—	0.30%	—	—
Second CCT Rate	—	—	—	—	0.30%	—	—	—	0.15%	—	—
Financial Corporation Capital Tax (CCT) Rates											
First CCT Rate	1.25%	0.33%	—	0.70%	3.00%	0.30%	0.24%	3.00%	4.00%	5.00%	4.00%
Second CCT Rate	—	1.00%	—	3.25%	—	0.45%	—	—	—	—	—
Insurance Corporations Tax (ICT) Rates											
Personal Premiums	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
Property Premiums	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
Corporate Payroll Taxes											
Small Payroll Rate	—	—	—	—	4.30%	1.95%	2.70%	—	—	—	2.00%
Large Payroll Rate	—	—	—	—	2.15%	—	4.26%	—	—	—	—

Note: These are the rates in effect in the late winter or early spring of 2010. Thresholds for the General and Financial Corporate Capital Tax (CCT) and the various Corporate Payroll Taxes differ between the provinces. The first rate of CCT is the lowest rate available, and it applies to corporations with less built-up capital. The second rate is the highest rate possible and applies to corporations with more built-up capital. The first payroll rate applies to corporations with smaller payrolls and the second rate to those corporations with larger payrolls. Additional detail is provided in subsequent charts within this appendix.

Source: British Columbia Budgets (1990-2010) and PriceWaterhouseCoopers (Tax Facts and Figures 2007-2010).

FIGURE D.2: Statutory Rates of Corporate Income Tax (CIT) for General Corporations, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	28.84%	14.00%	15.00%	15.00%	17.00%	15.50%	6.16%	16.00%	15.00%	15.00%	17.00%
1991	28.84%	15.00%	15.50%	15.00%	17.00%	15.50%	6.33%	17.00%	16.00%	15.00%	17.00%
1992	28.84%	16.00%	15.50%	15.00%	17.00%	15.50%	6.90%	17.00%	16.00%	15.00%	17.00%
1993	28.84%	16.50%	15.50%	17.00%	17.00%	15.50%	6.90%	17.00%	16.00%	15.00%	16.00%
1994	28.84%	16.50%	15.50%	17.00%	17.00%	15.50%	8.90%	17.00%	16.00%	15.00%	16.00%
1995	29.12%	16.50%	15.50%	17.00%	17.00%	15.50%	8.90%	17.00%	16.00%	15.00%	16.00%
1996	29.12%	16.50%	15.50%	17.00%	17.00%	15.50%	8.90%	17.00%	16.00%	15.00%	14.00%
1997	29.12%	16.50%	15.50%	17.00%	17.00%	15.50%	8.90%	17.00%	16.00%	15.00%	14.00%
1998	29.12%	16.50%	15.50%	17.00%	17.00%	15.50%	9.15%	17.00%	16.00%	16.00%	14.00%
1999	29.12%	16.50%	15.50%	17.00%	17.00%	15.50%	9.15%	17.00%	16.00%	16.00%	14.00%
2000	29.12%	16.50%	15.50%	17.00%	17.00%	15.50%	8.90%	17.00%	16.00%	16.00%	14.00%
2001	28.12%	16.50%	15.50%	17.00%	17.00%	14.00%	9.04%	17.00%	16.00%	16.00%	14.00%
2002	26.12%	13.50%	13.50%	17.00%	16.50%	12.50%	9.04%	16.00%	16.00%	16.00%	14.00%
2003	24.12%	13.50%	13.00%	17.00%	16.00%	12.50%	9.04%	13.00%	16.00%	16.00%	14.00%
2004	22.12%	13.50%	12.50%	17.00%	15.50%	14.00%	8.90%	13.00%	16.00%	16.00%	14.00%
2005	22.12%	13.50%	11.50%	17.00%	15.00%	14.00%	8.90%	13.00%	16.00%	16.00%	14.00%
2006	22.12%	12.00%	11.50%	17.00%	15.00%	14.00%	8.90%	13.00%	16.00%	16.00%	14.00%
2007	22.12%	12.00%	10.00%	13.00%	14.00%	14.00%	9.90%	13.00%	16.00%	16.00%	14.00%
2008	19.50%	12.00%	10.00%	13.00%	14.00%	14.00%	11.40%	13.00%	16.00%	16.00%	14.00%
2009	19.00%	11.00%	10.00%	12.00%	13.00%	14.00%	11.90%	13.00%	16.00%	16.00%	14.00%
2010	18.00%	10.50%	10.00%	12.00%	12.00%	14.00%	11.90%	12.00%	16.00%	16.00%	14.00%
2011	16.50%	10.00%	10.00%	12.00%	11.00%	12.00%	11.90%	11.00%	16.00%	16.00%	14.00%
2012	15.00%	10.00%	10.00%	12.00%	11.00%	11.50%	11.90%	10.00%	16.00%	16.00%	14.00%
2013	15.00%	10.00%	10.00%	12.00%	11.00%	11.00%	11.90%	8.00%	16.00%	16.00%	14.00%
2014	15.00%	10.00%	10.00%	12.00%	11.00%	10.00%	11.90%	8.00%	16.00%	16.00%	14.00%

Note: These are the rates in effect in the late winter or early spring of each year. Future rates are also those that will be in effect in the late winter or early spring of each year.

Source: British Columbia Budgets (1990-2010) and PriceWaterhouseCoopers (Tax Facts and Figures 2007-2010).

FIGURE D.3: Statutory Rates of Corporate Income Tax (CIT) for Small Business, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	12.84%	9.00%	6.00%	10.00%	10.00%	10.00%	3.36%	9.00%	10.00%	10.00%	10.00%
1991	12.84%	9.00%	6.00%	10.00%	10.00%	10.00%	3.45%	9.00%	10.00%	10.00%	10.00%
1992	12.84%	10.00%	6.00%	10.00%	10.00%	10.00%	3.75%	9.00%	10.00%	10.00%	10.00%
1993	12.84%	10.00%	6.00%	9.00%	10.00%	9.50%	3.75%	9.00%	5.00%	7.50%	5.00%
1994	12.84%	10.00%	6.00%	9.50%	10.00%	9.50%	5.75%	9.00%	5.00%	7.50%	5.00%
1995	13.12%	10.00%	6.00%	8.00%	9.00%	9.50%	5.75%	7.00%	5.00%	7.50%	5.00%
1996	13.12%	9.00%	6.00%	8.00%	9.00%	9.50%	5.75%	7.00%	5.00%	7.50%	5.00%
1997	13.12%	9.00%	6.00%	8.00%	9.00%	9.50%	5.75%	7.00%	5.00%	7.50%	5.00%
1998	13.12%	9.00%	6.00%	8.00%	9.00%	9.50%	5.91%	7.00%	5.00%	7.50%	5.00%
1999	13.12%	5.50%	6.00%	8.00%	9.00%	8.50%	9.15%	6.00%	5.00%	7.50%	5.00%
2000	13.12%	4.75%	6.00%	8.00%	7.00%	7.00%	8.90%	6.00%	5.00%	7.50%	5.00%
2001	13.12%	4.50%	6.00%	8.00%	7.00%	7.00%	9.04%	4.50%	5.00%	7.50%	5.00%
2002	13.12%	4.50%	5.00%	6.00%	5.00%	6.00%	9.04%	4.00%	5.00%	7.50%	5.00%
2003	13.12%	4.50%	4.50%	6.00%	5.00%	5.50%	9.04%	3.00%	5.00%	7.50%	5.00%
2004	13.12%	4.50%	4.00%	5.50%	5.00%	5.50%	8.90%	3.00%	5.00%	7.50%	5.00%
2005	13.12%	4.50%	3.00%	5.00%	5.00%	5.50%	8.90%	2.50%	5.00%	6.50%	5.00%
2006	13.12%	4.50%	3.00%	5.00%	4.50%	5.50%	8.90%	2.00%	5.00%	5.40%	5.00%
2007	13.12%	4.50%	3.00%	4.50%	3.00%	5.50%	8.00%	5.00%	5.00%	4.30%	5.00%
2008	11.00%	4.50%	3.00%	4.50%	2.00%	5.50%	8.00%	5.00%	5.00%	3.20%	5.00%
2009	11.00%	2.50%	3.00%	4.50%	1.00%	5.50%	8.00%	5.00%	5.00%	2.10%	5.00%
2010	11.00%	2.50%	3.00%	4.50%	1.00%	5.50%	8.00%	5.00%	5.00%	1.00%	5.00%
2011	11.00%	2.50%	3.00%	4.50%	0.00%	4.50%	8.00%	5.00%	4.50%	1.00%	4.00%
2012	11.00%	2.50%	3.00%	4.50%	0.00%	4.50%	8.00%	5.00%	4.50%	1.00%	4.00%
2013	11.00%	0.00%	3.00%	4.50%	0.00%	4.50%	8.00%	5.00%	4.50%	1.00%	4.00%
2014	11.00%	0.00%	3.00%	4.50%	0.00%	4.50%	8.00%	5.00%	4.50%	1.00%	4.00%

Note: These are the rates in effect in the late winter or early spring of each year. Future rates are also those that will be in effect in the late winter or early spring of each year.

Source: British Columbia Budgets (1990-2010) and PriceWaterhouseCoopers (Tax Facts and Figures 2007-2010).

FIGURE D.4: Statutory Rates of Corporate Income Tax (CIT) for Manufacturing and Processing, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	24.84%	M&P Same as General CIT Rate	15.00%	15.00%	M&P Same as General CIT Rate	14.50%	M&P Same as General CIT Rate	M&P Same as General CIT Rate	M&P Same as General CIT Rate	15.00%	17.00%
1991	23.84%		15.00%	15.00%		14.50%				15.00%	17.00%
1992	23.84%		15.00%	15.00%		14.50%				15.00%	17.00%
1993	22.84%	—	14.50%	17.00%	—	13.50%	—	—	—	7.50%	7.50%
1994	21.84%	—	14.50%	17.00%	—	13.50%	—	—	—	7.50%	7.50%
1995	22.12%	—	14.50%	10.00%	—	13.50%	—	—	—	7.50%	5.00%
1996	22.12%	—	14.50%	10.00%	—	13.50%	—	—	—	7.50%	5.00%
1997	22.12%	—	14.50%	10.00%	—	13.50%	—	—	—	7.50%	5.00%
1998	22.12%	—	14.50%	10.00%	—	13.50%	—	—	—	7.50%	5.00%
1999	22.12%	—	14.50%	10.00%	—	13.50%	—	—	—	7.50%	5.00%
2000	22.12%	—	14.50%	10.00%	—	13.50%	—	—	—	7.50%	5.00%
2001	22.12%	—	14.50%	10.00%	—	12.00%	—	—	—	7.50%	5.00%
2002	22.12%	—	13.50%	10.00%	—	11.00%	—	—	—	7.50%	5.00%
2003	22.12%	—	13.00%	10.00%	—	11.00%	—	—	—	7.50%	5.00%
2004	22.12%	—	12.50%	10.00%	—	12.00%	—	—	—	7.50%	5.00%
2005	22.12%	—	11.50%	10.00%	—	12.00%	—	—	—	7.50%	5.00%
2006	22.12%	—	11.50%	10.00%	—	12.00%	—	—	—	7.50%	5.00%
2007	22.12%	—	10.00%	10.00%	—	12.00%	—	—	—	16.00%	5.00%
2008	19.50%	—	10.00%	10.00%	—	12.00%	—	—	—	16.00%	5.00%
2009	19.00%	—	10.00%	10.00%	—	12.00%	—	—	—	16.00%	5.00%
2010	18.00%	—	10.00%	10.00%	—	12.00%	—	—	—	16.00%	5.00%
2011	16.50%	—	10.00%	10.00%	—	10.00%	—	—	—	16.00%	5.00%
2012	15.00%	—	10.00%	10.00%	—	10.00%	—	—	—	16.00%	5.00%
2013	15.00%	—	10.00%	10.00%	—	10.00%	—	—	—	16.00%	5.00%
2014	15.00%	—	10.00%	10.00%	—	10.00%	—	—	—	16.00%	5.00%

Note: These are the rates in effect in the late winter or early spring of each year. Future rates are also those that will be in effect in the late winter or early spring of each year.

Source: British Columbia Budgets (1990-2010) and PriceWaterhouseCoopers (Tax Facts and Figures 2007-2010).

FIGURE D.5: Statutory Rates of Corporation Capital Tax (CCT) on General Corporations, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	0.20%	0.00%	No General CCT	0.50%	0.30%	0.30%	0.50%	—	—	No General CCT	No General CCT
1991	0.20%	0.00%		0.50%	0.30%	0.30%	0.52%	—	—		
1992	0.20%	0.30%	—	0.60%	0.30%	0.30%	0.56%	—	—	—	—
1993	0.20%	0.30%	—	0.60%	0.30%	0.30%	0.56%	—	—	—	—
1994	0.20%	0.30%	—	0.60%	0.30%	0.30%	0.56%	—	—	—	—
1995	0.23%	0.30%	—	0.60%	0.50%	0.30%	0.56%	—	—	—	—
1996	0.23%	0.30%	—	0.60%	0.50%	0.30%	0.64%	—	—	—	—
1997	0.23%	0.30%	—	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	—	—
1998	0.23%	0.30%	—	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	—	—
1999	0.23%	0.30%	—	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	—	—
2000	0.23%	0.30%	—	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	—	—
2001	0.23%	0.30%	—	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	—	—
2002	0.23%	0.15%	—	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	—	—
2003	0.23%	—	—	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	—	—
2004	0.20%	—	—	0.60%	0.50%	0.30%	0.60%	0.30%	0.25%	—	—
2005	0.18%	—	—	0.60%	0.50%	0.30%	0.60%	0.30%	0.25%	—	—
2006	—	—	—	0.60%	0.50%	0.30%	0.53%	0.25%	0.25%	—	—
2007	—	—	—	0.60%	0.50%	0.23%	0.49%	0.20%	0.25%	—	—
2008	—	—	—	0.30%	0.50%	0.23%	0.36%	0.10%	0.23%	—	—
2009	—	—	—	0.15%	0.40%	0.23%	0.24%	—	0.20%	—	—
2010	—	—	—	—	0.30%	0.15%	0.12%	—	0.15%	—	—
2011	—	—	—	—	0.20%	—	—	—	0.10%	—	—
2012	—	—	—	—	—	—	—	—	0.05%	—	—
2013	—	—	—	—	—	—	—	—	—	—	—
2014	—	—	—	—	—	—	—	—	—	—	—

Note: These are the rates in effect during the late winter or early spring of each year. The rates are those that apply to the largest corporations. For 2010, Manitoba levies its general CCT at 0.10% of built-up capital between $10-$20 million, and at 0.30% on capital in excess of $20 million. Ontario levies the tax at 0.15% on built-up capital in excess of $15 million. Quebec levies the tax at 0.12% on all capital over $1 million. Nova Scota levies the tax at 0.30% on built-up capital between $5 million and $10 million, and at a lower rate of 0.15% for built-up capital in excess of $10 million.

Source: British Columbia Budgets (1990-2010) and PriceWaterhouseCoopers (Tax Facts and Figures 2007-2010).

FIGURE D.6: Statutory Rates of Corporation Capital Tax (CCT) on Financial Corporations, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	1.25%	2.00%	2.00%	3.00%	3.00%	0.80%	1.01%	2.00%	1.50%	2.50%	3.00%
1991	1.25%	2.00%	2.00%	3.00%	3.00%	1.00%	1.04%	3.00%	3.00%	3.00%	3.00%
1992	1.25%	3.00%	2.00%	3.00%	3.00%	1.00%	1.12%	3.00%	3.00%	3.00%	3.00%
1993	1.25%	3.00%	2.00%	3.25%	3.00%	1.12%	1.12%	3.00%	3.00%	3.00%	3.00%
1994	1.25%	3.00%	2.00%	3.25%	3.00%	1.12%	1.12%	3.00%	3.00%	3.00%	3.00%
1995	1.25%	3.00%	2.00%	3.25%	3.00%	1.12%	1.12%	3.00%	3.00%	3.00%	3.00%
1996	1.25%	3.00%	2.00%	3.25%	3.00%	1.12%	1.28%	3.00%	3.00%	3.00%	3.00%
1997	1.25%	3.00%	2.00%	3.25%	3.00%	1.12%	1.28%	3.00%	3.00%	3.00%	4.00%
1998	1.25%	3.00%	2.00%	3.25%	3.00%	0.99%	1.32%	3.00%	3.00%	3.00%	4.00%
1999	1.25%	3.00%	2.00%	3.25%	3.00%	0.99%	1.32%	3.00%	3.00%	3.00%	4.00%
2000	1.25%	3.00%	1.00%	3.25%	3.00%	0.99%	1.28%	3.00%	3.00%	3.00%	4.00%
2001	1.25%	3.00%	1.00%	3.25%	3.00%	0.90%	1.28%	3.00%	3.00%	3.00%	4.00%
2002	1.25%	3.00%	—	3.25%	3.00%	0.90%	1.28%	3.00%	3.00%	3.00%	4.00%
2003	1.25%	3.00%	—	3.25%	3.00%	0.90%	1.28%	3.00%	3.00%	3.00%	4.00%
2004	1.25%	3.00%	—	3.25%	3.00%	0.90%	1.20%	3.00%	3.00%	3.00%	4.00%
2005	1.25%	3.00%	—	3.25%	3.00%	0.90%	1.20%	3.00%	3.00%	3.00%	4.00%
2006	1.25%	3.00%	—	3.25%	3.00%	0.90%	1.05%	3.00%	4.00%	5.00%	4.00%
2007	1.25%	3.00%	—	3.25%	3.00%	0.68%	0.98%	3.00%	4.00%	5.00%	4.00%
2008	1.25%	3.00%	—	3.25%	3.00%	0.68%	0.72%	3.00%	4.00%	5.00%	4.00%
2009	1.25%	2.00%	—	3.25%	3.00%	0.68%	0.48%	3.00%	4.00%	5.00%	4.00%
2010	1.25%	1.00%	—	3.25%	3.00%	0.45%	0.24%	3.00%	4.00%	5.00%	4.00%
2011	1.25%	—	—	3.25%	3.00%	—	—	3.00%	4.00%	5.00%	4.00%
2012	1.25%	—	—	3.25%	3.00%	—	—	3.00%	4.00%	5.00%	4.00%
2013	1.25%	—	—	3.25%	3.00%	—	—	3.00%	4.00%	5.00%	4.00%
2014	1.25%	—	—	3.25%	3.00%	—	—	3.00%	4.00%	5.00%	4.00%

Note: These rates reflect those that apply to the larger financial corporations. BC currently levies a 0.33% tax on financial corporations with built-up capital under $1 billion, and a 1.00% tax on capital in excess of $1 billion. SK also has two rates, with 0.70% on capital between $20 million and $1.5 billion, and 3.25% on capital over $1.5 billion. MB levies a single tax of 3.00% on all capital in excess of $10 million. In the West, SK is more competitive than MB, but less competitive than either BC or AB. ON levies the tax at 0.30% on capital between $15 million and $400 million, at 0.36% on capital in excess of $400 million, and at 0.45% on capital for institutions that accept deposits. Across the country, rates in Atlantic Canada are generally quite high, ranging from 3.00% too 5.00% on thresholds that are generally low, anywhere from $500,000 in NS to $10 million in NB and NFLD. QC has the simplest system, with a rate of 0.24% on all built-up capital. Source: British Columbia Budgets (1990-2010) and PriceWaterhouseCoopers (Tax Facts and Figures 2007-2010).

FIGURE D.7: Statutory Rates of Tax on Personal (Life and Disability) Premiums Collected by Insurance Corporations, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1991	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1992	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1993	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1994	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1995	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1996	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1997	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1998	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.00%	4.00%
1999	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2000	—	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2001	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2002	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2003	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2004	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2005	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2006	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2007	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2008	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2009	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2010	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2011	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2012	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2013	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
2014	—	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%

Source: British Columbia Budgets (1990-2010).

FIGURE D.8: Statutory Rates of Tax on Property Premiums Collected by Insurance Corporations, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1991	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1992	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1993	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1994	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1995	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1996	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1997	—	3.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1998	—	4.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.00%	4.00%
1999	—	4.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2000	—	4.00%	3.00%	3.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2001	—	4.00%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2002	—	4.00%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2003	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2004	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2005	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2006	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2007	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2008	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2009	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2010	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2011	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2012	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2013	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
2014	—	4.40%	3.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%

Source: British Columbia Budgets (1990-2010).

FIGURE D.9: Statutory Rates of Payroll Tax, 1990-2014

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	No Tax on Payrolls	No Tax on Payrolls	No Tax on Payrolls	No Tax on Payrolls	2.25%	1.95%	3.36%	No Tax on Payrolls	No Tax on Payrolls	No Tax on Payrolls	1.50%
1991					2.25%	1.95%	3.45%				1.50%
1992	—	—	—	—	2.25%	1.95%	3.75%	—	—	—	1.50%
1993	—	—	—	—	2.25%	1.95%	3.75%	—	—	—	1.50%
1994	—	—	—	—	2.25%	1.95%	3.75%	—	—	—	1.50%
1995	—	—	—	—	2.25%	1.95%	3.75%	—	—	—	1.50%
1996	—	—	—	—	2.25%	1.95%	4.26%	—	—	—	2.00%
1997	—	—	—	—	2.25%	1.95%	4.26%	—	—	—	2.00%
1998	—	—	—	—	2.25%	1.95%	4.26%	—	—	—	2.00%
1999	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2000	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2001	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2002	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2003	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2004	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2005	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2006	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2007	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2008	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2009	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2010	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2011	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2012	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2013	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%
2014	—	—	—	—	2.15%	1.95%	4.26%	—	—	—	2.00%

Note: These rates reflect the tax on larger payrolls. Manitoba charges 4.30% on smaller payrolls from $1.25 million to $2.5 million, and all payrolls under $1.25 million are exempt. The 2.15% rate applies to payrolls over $2.5 million. Quebec charges a lower rate of tax on payrolls under $5 million. Payrolls over $5 million are subject to the 4.26% tax. The Newfoundland payroll tax of 2.00% applies to all payrolls over $1 million.

Source: British Columbia Budgets (1990-2010) and PriceWaterhouseCoopers (Tax Facts and Figures 2007-2010).

FIGURE D.10: Corporate Taxes Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	1.98%	1.01%	1.15%	1.14%	2.37%	1.88%	2.94%	1.08%	0.99%	0.87%	1.05%
1990-91	1.72%	0.91%	1.23%	0.95%	1.71%	2.32%	2.84%	0.80%	0.79%	0.83%	1.18%
1991-92	1.37%	0.87%	1.16%	1.01%	1.75%	2.10%	2.98%	0.89%	0.51%	0.93%	1.36%
1992-93	1.03%	1.14%	1.00%	1.17%	1.87%	1.89%	2.95%	0.50%	0.71%	0.60%	1.37%
1993-94	1.25%	1.31%	1.21%	1.50%	1.79%	2.08%	3.01%	0.83%	0.65%	0.89%	1.42%
1994-95	1.42%	1.55%	1.39%	1.58%	1.77%	2.31%	3.18%	1.28%	0.84%	1.03%	1.52%
1995-96	1.90%	1.69%	1.59%	1.85%	2.04%	2.39%	3.50%	0.95%	0.71%	0.86%	1.57%
1996-97	1.94%	1.76%	1.56%	1.74%	2.11%	2.55%	3.71%	1.65%	0.82%	0.92%	1.62%
1997-98	2.40%	1.50%	1.87%	1.77%	1.98%	2.87%	3.89%	1.60%	1.00%	1.11%	1.73%
1998-99	2.32%	1.51%	1.67%	1.59%	1.94%	2.73%	3.83%	1.00%	1.00%	1.14%	1.72%
1999-00	2.25%	1.32%	1.20%	1.97%	2.23%	2.74%	3.76%	1.09%	1.05%	0.79%	1.58%
2000-01	2.63%	1.30%	1.51%	2.15%	2.63%	2.86%	3.87%	1.23%	1.09%	1.31%	1.36%
2001-02	2.19%	1.59%	1.56%	1.68%	2.09%	2.24%	3.59%	1.26%	1.14%	1.02%	1.22%
2002-03	1.93%	0.75%	1.45%	1.79%	1.70%	2.31%	3.23%	1.05%	1.19%	0.92%	1.43%
2003-04	2.26%	0.82%	1.12%	2.04%	2.07%	2.11%	3.41%	0.95%	1.28%	1.05%	1.53%
2004-05	2.32%	1.09%	1.36%	1.74%	2.40%	2.67%	3.47%	1.12%	1.59%	0.95%	1.60%
2005-06	2.31%	1.13%	1.42%	2.25%	2.18%	2.64%	3.61%	1.00%	1.62%	1.20%	2.03%
2006-07	2.60%	1.09%	1.61%	2.51%	2.09%	2.72%	3.48%	1.61%	1.66%	1.25%	1.90%
2007-08	2.65%	1.43%	1.93%	2.10%	2.13%	3.00%	3.44%	1.73%	1.62%	1.11%	2.19%
2008-09	1.84%	1.28%	1.56%	1.79%	2.02%	1.93%	3.24%	0.65%	1.42%	0.87%	2.15%
2009-10	1.46%	0.95%	1.50%	2.53%	1.67%	1.75%	3.10%	0.88%	1.27%	0.92%	3.49%
2010-11	1.59%	0.64%	1.33%	2.17%	1.57%	2.04%	3.13%	0.85%	1.29%	1.01%	1.86%

Note: The basket of corporate taxes include corporate income taxes, corporate capital taxes, taxes on insurance companies, payroll taxes, and miscellaneous business taxes.

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), and Statistics Canada.

APPENDIX E
SALES TAXES

Introduction

This appendix provides data on the various sales taxes used in Saskatchewan, including the general Provincial Sales Tax (PST) as well as the selective sales (or excise) taxes on fuel and tobacco. Much of the commentary in the appendix, however, revolves around the PST. The appendix discusses the importance of the PST as a revenue source, makes comparisons with other provinces, and identifies several issues and concerns associated with this source of revenue.

The Data

1) Rates of Various Sales Taxes

- *Provincial Sales Tax (PST):* Saskatchewan's general provincial sales tax (PST) rate is currently 5%. This is the lowest general sales tax rate of any province in Canada. While most provinces have reduced their rate of general sales tax, Saskatchewan has done so much more aggressively. Saskatchewan has cut its rate of PST from a high of 9% in 1997 to 5% today. No other province has reduced its rate of PST as much as Saskatchewan *(Figure E.1).* Given the low tax rate, Saskatchewan is less reliant on its general sales tax than most other provinces.

- *Fuel Taxes:* Currently, Saskatchewan has the second highest rates of tax on gasoline and diesel in western Canada. Fuel tax rates in Saskatchewan are higher than Alberta and Manitoba, lower than British Columbia, and roughly equivalent to Ontario *(Figure E.2).* The same pattern applies to taxes on diesel fuel *(Figure E.3).*

- *Tobacco Taxes:* Most provinces in western Canada tend to levy a similar tax on tobacco, around $40.00 per carton of cigarettes *(Figure E.4).* Thus, Saskatchewan is competitive within the region. Across Canada, provincial tobacco taxes are the lowest in Quebec, Ontario, and New Brunswick, and the highest in Nova Scotia and PEI. Unlike most other taxes, there is little competitive concern with tobacco taxes.

2) Sales Tax Revenues as a % of GDP:

- *Provincial Sales Tax (PST):* When annual general sales tax revenue is set against GDP, the resulting ratios also show that Saskatchewan is the least reliant on this revenue source *(Figure E.5).* Revenue from the PST in Saskatchewan for 2010/11 is estimated at 2.06% of GDP. This is lower than British Columbia's 2.64% ratio. It is also much lower than other provinces, where the ratios exceed 3% and even 4%.

- *Fuel Taxes:* As noted above, Saskatchewan has the second highest rate of tax on gasoline and diesel in western Canada. Saskatchewan's tax rates are also higher than Ontario. Fuel tax rates in Quebec and the Atlantic provinces are higher than Saskatchewan. However, Saskatchewan has the third highest ratio of fuel tax revenue to GDP at 0.79% *(Figure E.6).* Only British Columbia and PEI have higher ratios, at 0.82% and 0.86% respectively. In all likelihood, this result comes from a moderately higher rate of tax and significant volumes of fuel sold and purchased.

- *Tobacco Taxes:* When it comes to tobacco tax revenue as a percentage of GDP, Saskatchewan emerges in the middle position *(Figure E.7).* Tobacco tax revenue in Saskatchewan for 2010/11 is estimated at 0.41% of GDP. There are four provinces with higher ratios and five provinces with lower ratios.
- *Other Taxes:* Most provinces also levy a number of other taxes. Some of these are sales taxes (e.g., special rates of tax on hotels, accommodations, and liquor) while others typically relate to transactions involving property (e.g., land transfer taxes or real estate transfer taxes). While the latter taxes are usually defined as a property tax, they do have a sales component to them. As such, we have placed these taxes into the "sales tax" category. Most of these taxes are insignificant—if not completely irrelevant—in Quebec and the Atlantic provinces *(Figure E.8).* It is only in Ontario and the four western provinces where they play a role. As a percentage of GDP, these taxes are highest in British Columbia (0.47%) and Saskatchewan (0.29%). They are the lowest in Alberta (0.09%) and Manitoba (0.12%).

General Commentary on Saskatchewan's Provincial Sales Tax (PST)

The provincial sales tax (PST) is an important source of tax revenue for the Province of Saskatchewan. It is estimated that the PST will generate $1.2 billion in 2010/11. The Province has promised to share one percentage point of this source of revenue with local governments. This promise was to have been fulfilled in the 2010-2011 budget. Due to current budget constraints, the amount is currently less than the one percentage point. There have been a number of significant changes in the PST tax base and the tax rate over the last decade. In 2000, the base was expanded to include a broader range of goods and services. In 2004, the rate was increased from 6% to 7%. In 2006, the rate was reduced to 5%.

All provinces except Alberta impose a broad-based general sales tax. The tax takes one of two forms—either a Provincial Sales Tax (PST) which is a retail sales tax (RST), or a Harmonized Sales Tax (HST) which is a value-added (VAT) sales tax. Saskatchewan, Manitoba and PEI currently impose the retail sales tax version, while Newfoundland and Labrador, Nova Scotia, New Brunswick, Ontario and British Columbia impose an HST. Quebec has its own version, which is termed a "partially" harmonized sales tax. Provincial rates of tax (or the provincial portion of the HST) range from a low of 5% in Saskatchewan to a high of 10% in Nova Scotia and PEI.

Issues and Concerns with the PST in Saskatchewan

There a number of concerns regarding the imposition of the PST in Saskatchewan. These concerns have traditionally centered around: 1) the impact of the PST on low income earners; 2) whether there should be less emphasis on personal and corporate income tax and more emphasis on the PST; 3) various administrative concerns such as the narrow tax base, the fact that Alberta does not impose a general sales tax, and compliance and administrative complexities for business owners and government; and 4) the large portion of the tax paid on business inputs and the resulting economic impact on investment and development.

1) The Impact on Lower Income Earners

There is no doubt that the PST as it is levied in Saskatchewan has a greater impact on lower income groups than middle or higher income groups. This is because those groups spend a higher percentage of their incomes on consumption that is taxable. As an illustration of this, Mony Louk estimated that in the income group of $10,000 to $20,000, about 1.5% of that income went to PST. In the income group from $50,000 to $100,000, about 1.2% of that income went to PST (Louk 2010). Although this is clearly a legitimate concern, the impact on lower income groups can (and has been) largely addressed through increased basic exemptions and low income refundable tax credits within the Saskatchewan personal income tax system.

2) The Right Tax Mix

A number of tax policy writers have commented that the tax mix is often as important as the level of taxation. Certain taxes have a less adverse effect on the economy—less distortion—than other taxes. For example, the OECD has written:

> *"Some analysts argue that increased international tax competition—different tax rates or provisions in different countries—makes it more difficult for governments to collect corporate and personal income taxes from their citizens, so that taxes on consumption will become a more important source of revenue. Others claim that a move from taxes on income to taxes on consumption would improve economic efficiency and increase the rate of growth, or that it would improve competitiveness and protect employment."* (OECD, *Consumption Taxes: The Way of the Future*, 2007).

In 2009, a report from the Canada West Foundation stated the following:

> *"The conventional wisdom on taxation in Canada is that the West is already quite competitive. But this is not entirely the case. Unlike the harmonized sales tax (HST) in some provinces, provincial sales tax (PST) systems in British Columbia, Saskatchewan, and Manitoba have traditionally hit on business inputs resulting in a less competitive tax regime. While British Columbia has announced intentions to replace its PST with a new HST in July 2010, similar plans have not yet been announced by Saskatchewan or Manitoba. To be sure, the western provinces generally enjoy a lower provincial tax-to-GDP ratio than other provinces. They also enjoy lower rates for many types of taxes. But the battle for competitiveness will not be won on low tax levels alone. Rather, it is the type of taxes in play that are critically important—who we tax, what we tax, how we tax, how much we tax, and how we spend the revenue…One concern is the heavier reliance on personal income taxes as opposed to sales taxes…"* (Casey G. Vander Ploeg in *Ready for Take-Off*, Canada West Foundation, 2009.)

3) Administrative concerns

A: The Tax Level
B: The Tax Mix
C: Personal Income Tax
D: Corporate Taxation
E: Sales Taxes
F: Municipal Property Taxes
G: Education Property Tax
H: Marginal Effective Tax Rate on Capital
I: Evaluative Criteria
J: Survey Results
Main Report
Glossary

There are three main concerns that could be referred to as "administrative" concerns. These include the narrow tax base of the current PST on services, which results in uneven administration of the tax, the western border with Alberta, and the added administrative and compliance costs for business and government in managing two sales tax regimes (PST provincially and GST federally).

As long as provinces have the ability to have different tax regimes, there will always be the concern of "leakage" to another lower tax jurisdiction. This leakage could either be in the form of tax revenue only or in the form of tax revenue and economic activity. In the case of the PST, the concern is that the leakage takes the broader form—both economic activity and lost revenue. Of course, any shift of taxes to this base, will increase the concern of tax leakage.

The administrative and compliance burden is significant for both businesses and government. If tax fields are shared between jurisdictions there is little that can be done to reduce these costs other than through simplification, tax collection agreements or harmonization of the various tax bases.

4) Allocation and Incidence of the Tax and Economic Impact on Investment

The PST, as it is currently imposed in Saskatchewan, is initially paid by individuals (41%), businesses (54%), and the public sector (5%). These figures are significant because of the potential economic impact of the tax on businesses and investment, but also because the large portion currently paid by business makes it difficult to change the tax to a pure consumption tax. This difficulty is caused by the anticipated consumer price changes as more of the tax is shifted to individuals.

Michael Smart suggests that there is evidence that the amount currently paid by businesses—the 54% in Saskatchewan—is shifted forward or even over-shifted in most sectors in the form of higher prices. Consequently, in the long term, there would be little overall impact on consumer prices if the tax was shifted from businesses to consumers as retail prices would decline. Professor Smart does suggest that the long term economic adjustments are not even and special attention might have to be paid to the housing industry (Smart 2007).

The economic impact of various types of taxes is well documented. In a recent Manitoba study, referring to taxation of businesses (e.g., corporate capital taxes and retail sales taxes) the following comment was made:

"*These taxes are highly distortionary and have a very significant impact on new business investments—a primary determinant of future prosperity.*" (Business Council of Manitoba and Asper School of Business, *Tax Commission Report*, 2010).

The 2005 Business Tax Review Committee in Saskatchewan relied on data from Finance Canada to conclude that there is a significant positive economic impact on the economy when sales tax reform is compared to other tax reform possibilities (BTRC 2005). Michael Smart also concludes that it is important to emphasize that the increase in investment caused by sales tax reform is a short run phenomenon. However, it is likely that the overall effect on the capital stock and productivity is both long-run and permanent (Smart 2007).

As mentioned in the main report of the *Framework*, converting the current PST from a retail sales tax (RST) to a value-added sales tax (VAT) would lower the marginal effective tax rate (METR) on new business investment. This is explored in more detail in *Appendix H.*

Addressing the Issues

From a tax policy perspective, the most efficient way to address the issues identified above is through a harmonization of the PST with the GST. This has wide support across the Saskatchewan business community and has been recommended by both *Enterprise Saskatchewan* and the 2005 Business Tax Review Committee (Enterprise Saskatchewan 2010 and BTRC 2005). In replying to *Enterprise Saskatchewan*, the province stated that it is not pursuing sales tax harmonization at this time.

In the longer term harmonization is an obvious answer to the issues, concerns and hopes of continuing economic prosperity. However, it not likely that this will take place in the current political climate and without some significant educational effort. The concerns that need to be addressed in this longer term discussion are those related to potential consumer price increases across all sectors, the impact on lower income groups and the impact on new home investment. There are also myths that have to be addressed.

If the harmonization solution is not likely in the short-term, what else can be done to ensure continuing prosperity? The *Framework* has identified several options that could improve the competitive position of Saskatchewan. Those related to the PST tax are: 1) input credits through the personal income or corporate income tax systems, modeled after the *Investment Tax Credit* for manufacturing and processing firms; 2) point of sale exemptions for certain business inputs; and 3) enhanced capital cost allowance regulations for fixed assets used in Saskatchewan to earn income.

Potential changes that might also help, but unrelated to the PST, include: 1) changes to the municipal and education property tax systems; 2) changes to the general corporate income tax rate and the small business income tax rate; and 3) changes to the personal income tax rate schedule. All of these various solutions combine to form the basis of Option A, Option B, and Option C in the *Framework*.

FIGURE E.1: Statutory Rates of General Sales Tax, 1990-2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	7.00%	6.00%	No General Sales Tax	7.00%	7.00%	8.00%	9.00%	11.00%	10.00%	10.00%	12.00%
1991	7.00%	6.00%		7.00%	7.00%	8.00%	8.00%	11.00%	10.00%	10.00%	12.00%
1992	7.00%	6.00%	—	7.00%	7.00%	8.00%	8.00%	11.00%	10.00%	10.00%	12.00%
1993	7.00%	7.00%	—	9.00%	7.00%	8.00%	8.00%	11.00%	10.00%	10.00%	12.00%
1994	7.00%	7.00%	—	9.00%	7.00%	8.00%	8.00%	11.00%	11.00%	10.00%	12.00%
1995	7.00%	7.00%	—	9.00%	7.00%	8.00%	6.50%	11.00%	11.00%	10.00%	12.00%
1996	7.00%	7.00%	—	9.00%	7.00%	8.00%	6.50%	11.00%	11.00%	10.00%	12.00%
1997	7.00%	7.00%	—	9.00%	7.00%	8.00%	6.50%	8.00%	8.00%	10.00%	8.00%
1998	7.00%	7.00%	—	7.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
1999	7.00%	7.00%	—	7.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2000	7.00%	7.00%	—	6.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2001	7.00%	7.00%	—	6.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2002	7.00%	7.50%	—	6.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2003	7.00%	7.50%	—	6.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2004	7.00%	7.50%	—	6.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2005	7.00%	7.00%	—	7.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2006	7.00%	7.00%	—	7.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2007	6.00%	7.00%	—	5.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2008	5.00%	7.00%	—	5.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2009	5.00%	7.00%	—	5.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%
2010	5.00%	7.00%	—	5.00%	7.00%	8.00%	7.50%	8.00%	8.00%	10.00%	8.00%

Note: Tax rates are those in effect during the late winter or early spring of each year. Some rate changes occurred in mid-year. Quebec will be increasing its rate to 8.5% for 2011 and to 9.5% for 2012. Nova Scotia will increase its rate for 2011 to 10%.

Source: Derived by Canada West Foundation from various British Columbia Budgets (1990-2010).

FIGURE E.2: Statutory Rates of Tax on Gasoline, 1990-2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	8.50¢	9.49¢	7.00¢	10.00¢	9.00¢	11.30¢	14.40¢	10.30¢	9.30¢	10.80¢	11.00¢
1991	8.50¢	10.74¢	9.00¢	10.00¢	10.50¢	13.00¢	16.60¢	12.70¢	13.70¢	12.30¢	13.70¢
1992	8.50¢	10.00¢	9.00¢	10.00¢	10.50¢	14.70¢	19.20¢	12.70¢	12.60¢	11.80¢	13.70¢
1993	8.50¢	11.00¢	9.00¢	15.00¢	10.50¢	14.70¢	18.90¢	10.70¢	10.90¢	11.70¢	15.70¢
1994	8.50¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	18.50¢	10.70¢	12.20¢	10.70¢	15.70¢
1995	8.50¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	18.60¢	10.70¢	13.50¢	12.00¢	16.50¢
1996	8.50¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	18.70¢	10.70¢	13.50¢	12.00¢	16.50¢
1997	8.50¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	19.00¢	10.70¢	13.50¢	12.00¢	16.50¢
1998	8.50¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	19.00¢	10.70¢	13.50¢	13.00¢	16.50¢
1999	10.00¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	19.20¢	10.70¢	13.50¢	13.00¢	16.50¢
2000	10.00¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	19.20¢	10.70¢	13.50¢	13.00¢	16.50¢
2001	10.00¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	19.20¢	10.70¢	13.50¢	13.00¢	16.50¢
2002	10.00¢	11.00¢	9.00¢	15.00¢	11.50¢	14.70¢	19.20¢	10.70¢	13.50¢	13.00¢	16.50¢
2003	10.00¢	14.50¢	9.00¢	15.00¢	11.50¢	14.70¢	19.20¢	14.50¢	15.50¢	14.00¢	16.50¢
2004	10.00¢	14.50¢	9.00¢	15.00¢	11.50¢	14.70¢	19.20¢	14.50¢	15.50¢	14.00¢	16.50¢
2005	10.00¢	14.50¢	9.00¢	15.00¢	11.50¢	14.70¢	19.20¢	14.50¢	15.50¢	17.00¢	16.50¢
2006	10.00¢	14.50¢	9.00¢	15.00¢	11.50¢	14.70¢	22.00¢	21.50¢	22.50¢	20.00¢	23.50¢
2007	10.00¢	14.50¢	9.00¢	15.00¢	11.50¢	14.70¢	21.50¢	17.50¢	22.50¢	19.50¢	23.50¢
2008	10.00¢	14.50¢	9.00¢	15.00¢	11.50¢	14.70¢	22.50¢	18.00¢	23.00¢	15.80¢	24.50¢
2009	10.00¢	16.84¢	9.00¢	15.00¢	11.50¢	14.70¢	20.40¢	15.70¢	20.60¢	15.80¢	22.40¢
2010	10.00¢	17.83¢	9.00¢	15.00¢	11.50¢	14.70¢	22.20¢	17.80¢	22.90¢	15.80¢	24.30¢

Note: Tax rates are those in effect during the late winter or early spring of each year. Some rate changes occurred in mid-year. Includes the carbon tax in British Columbia.

Source: Derived by Canada West Foundation from various British Columbia Budgets (1990-2010).

FIGURE E.3: Statutory Rates of Tax on Diesel, 1990-2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	4.00¢	9.93¢	7.00¢	10.00¢	9.90¢	10.90¢	12.45¢	11.10¢	9.40¢	10.60¢	12.30¢
1991	4.00¢	11.18¢	9.00¢	10.00¢	10.90¢	12.60¢	14.70¢	13.70¢	16.20¢	12.40¢	15.60¢
1992	4.00¢	10.50¢	9.00¢	10.00¢	10.90¢	14.30¢	19.10¢	13.70¢	14.20¢	11.80¢	15.60¢
1993	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	17.00¢	13.70¢	13.60¢	11.70¢	17.60¢
1994	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	16.50¢	13.70¢	15.00¢	11.20¢	17.60¢
1995	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	16.60¢	13.70¢	15.40¢	12.50¢	16.50¢
1996	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	16.60¢	13.70¢	15.40¢	12.50¢	16.50¢
1997	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	16.90¢	13.70¢	15.40¢	12.50¢	16.50¢
1998	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	19.60¢	13.70¢	15.40¢	13.50¢	16.50¢
1999	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	20.20¢	13.70¢	15.40¢	13.50¢	16.50¢
2000	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	20.20¢	13.70¢	15.40¢	13.50¢	16.50¢
2001	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	20.20¢	13.70¢	15.40¢	13.50¢	16.50¢
2002	4.00¢	11.50¢	9.00¢	15.00¢	10.90¢	14.30¢	20.20¢	13.70¢	15.40¢	13.50¢	16.50¢
2003	4.00¢	15.00¢	9.00¢	15.00¢	10.90¢	14.30¢	20.20¢	16.90¢	15.40¢	13.50¢	16.50¢
2004	4.00¢	15.00¢	9.00¢	15.00¢	10.90¢	14.30¢	20.20¢	16.90¢	15.40¢	13.50¢	16.50¢
2005	4.00¢	15.00¢	9.00¢	15.00¢	10.90¢	14.30¢	20.20¢	16.90¢	15.40¢	16.50¢	16.50¢
2006	4.00¢	15.00¢	9.00¢	15.00¢	11.50¢	14.30¢	23.00¢	24.00¢	22.50¢	20.00¢	24.00¢
2007	4.00¢	15.00¢	9.00¢	15.00¢	11.50¢	14.30¢	23.00¢	24.00¢	22.00¢	20.00¢	24.00¢
2008	4.00¢	15.00¢	9.00¢	15.00¢	11.50¢	14.30¢	23.50¢	24.50¢	23.00¢	20.00¢	24.50¢
2009	4.00¢	17.69¢	9.00¢	15.00¢	11.50¢	14.30¢	22.70¢	23.60¢	21.60¢	20.20¢	23.30¢
2010	4.00¢	18.84¢	9.00¢	15.00¢	11.50¢	14.30¢	23.30¢	24.40¢	22.70¢	20.20¢	24.20¢

Note: Tax rates are those in effect during the late winter or early spring of each year. Some rate changes occurred in mid-year. Includes the carbon tax in British Columbia.

Source: Derived by Canada West Foundation from various British Columbia Budgets (1990-2010).

FIGURE E.4: Statutory Rates of Tax on Tobacco, 1990-2010

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1990	$9.77	$12.40	$11.20	$13.36	$15.72	$10.32	$9.04	$18.14	$12.52	$14.00	$15.12
1991	$15.85	$16.00	$14.00	$16.16	$16.96	$16.48	$14.72	$23.76	$17.68	$18.00	$18.80
1992	$15.85	$21.00	$14.00	$16.32	$19.12	$16.32	$15.20	$24.40	$18.08	$18.00	$18.95
1993	$15.85	$22.00	$14.00	$20.00	$19.10	$16.40	$17.40	$18.60	$18.20	$18.00	$27.00
1994	$10.85	$22.00	$14.00	$19.20	$18.60	$5.05	$4.45	$9.80	$17.90	$10.35	$26.35
1995	$10.85	$22.00	$14.00	$19.20	$18.45	$5.05	$5.05	$9.60	$9.60	$10.35	$26.20
1996	$10.85	$22.00	$14.00	$19.20	$18.45	$5.05	$5.85	$10.20	$9.88	$11.35	$26.20
1997	$10.85	$22.00	$14.00	$19.20	$18.45	$5.95	$6.70	$10.20	$10.58	$12.05	$24.40
1998	$10.85	$22.00	$14.00	$20.00	$19.25	$6.51	$7.70	$10.15	$10.84	$12.65	$25.96
1999	$10.85	$22.00	$14.00	$20.00	$19.25	$6.70	$8.00	$10.15	$10.84	$12.65	$25.96
2000	$10.85	$22.00	$14.00	$20.00	$18.82	$7.35	$8.60	$10.80	$11.49	$13.20	$25.96
2001	$10.85	$22.00	$14.00	$20.00	$20.10	$7.35	$8.60	$10.80	$11.49	$13.20	$25.96
2002	$15.85	$30.00	$14.00	$19.70	$22.35	$11.55	$13.10	$17.65	$19.40	$17.90	$25.96
2003	$15.85	$32.00	$32.00	$35.80	$33.20	$17.20	$18.10	$29.00	$25.20	$22.90	$31.70
2004	$15.85	$35.80	$32.00	$36.00	$35.60	$19.70	$20.60	$28.10	$30.90	$29.90	$35.20
2005	$15.85	$35.80	$32.00	$39.20	$39.90	$23.45	$20.60	$28.10	$36.30	$34.90	$37.30
2006	$16.41	$35.80	$32.00	$39.20	$39.90	$24.70	$20.60	$28.10	$36.30	$34.90	$39.50
2007	$16.41	$35.80	$32.00	$40.20	$39.90	$25.95	$20.60	$28.20	$36.30	$34.90	$41.65
2008	$16.41	$35.80	$37.00	$40.20	$39.90	$25.95	$20.60	$28.20	$38.50	$34.90	$41.65
2009	$16.41	$37.00	$37.00	$40.30	$40.00	$24.70	$20.60	$28.30	$36.60	$39.90	$41.80
2010	$16.41	$37.00	$40.00	$40.30	$42.20	$24.70	$20.60	$28.30	$49.40	$44.90	$41.80

Note: Tax rates are those in effect during the late winter or early spring of each year. Some rate changes occurred in mid-year. Amount of tax is per carton of 200 cigarettes.

Source: Derived by Canada West Foundation from various British Columbia Budgets (1990-2010).

FIGURE E.5: General Sales Tax Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	2.69%	2.63%	0.00%	2.51%	2.87%	3.07%	3.44%	4.75%	3.92%	4.52%	6.10%
1990-91	2.24%	2.53%	0.00%	2.44%	2.71%	2.89%	3.49%	4.64%	3.70%	4.38%	5.93%
1991-92	2.21%	2.43%	0.00%	2.70%	2.57%	2.64%	3.97%	4.33%	3.47%	4.04%	5.81%
1992-93	2.12%	2.41%	0.00%	2.54%	2.57%	2.55%	3.79%	4.30%	3.40%	4.01%	5.68%
1993-94	2.19%	2.83%	0.00%	2.90%	2.84%	2.77%	3.44%	4.40%	3.73%	4.13%	5.56%
1994-95	2.21%	2.87%	0.00%	2.98%	2.84%	2.92%	3.19%	4.52%	3.94%	4.48%	5.49%
1995-96	2.08%	2.84%	0.00%	2.95%	2.86%	2.86%	3.17%	4.47%	3.87%	4.70%	5.34%
1996-97	2.17%	2.83%	0.00%	2.91%	2.86%	2.95%	2.89%	4.38%	3.79%	4.61%	5.44%
1997-98	2.23%	2.84%	0.00%	2.58%	2.96%	3.02%	2.91%	3.47%	3.41%	4.39%	4.22%
1998-99	2.29%	2.77%	0.00%	2.51%	3.03%	3.08%	3.27%	3.36%	3.38%	4.46%	4.02%
1999-00	2.35%	2.76%	0.00%	2.14%	3.05%	3.15%	3.21%	3.10%	3.27%	4.59%	3.75%
2000-01	2.30%	2.75%	0.00%	2.18%	2.94%	3.12%	3.28%	3.25%	3.26%	4.55%	3.55%
2001-02	2.28%	2.66%	0.00%	2.33%	2.93%	3.04%	3.15%	3.19%	3.29%	4.61%	3.79%
2002-03	2.45%	2.75%	0.00%	2.37%	2.95%	2.97%	3.33%	3.48%	3.34%	4.46%	3.65%
2003-04	2.33%	2.76%	0.00%	2.33%	3.03%	2.89%	3.45%	3.59%	3.38%	4.53%	3.43%
2004-05	2.31%	2.64%	0.00%	2.41%	3.02%	2.88%	3.52%	3.05%	3.45%	4.34%	3.28%
2005-06	2.40%	2.57%	0.00%	2.53%	3.07%	2.89%	3.53%	3.39%	3.39%	4.39%	2.77%
2006-07	2.16%	2.59%	0.00%	2.37%	3.01%	2.90%	3.50%	3.37%	3.44%	4.38%	2.59%
2007-08	1.95%	2.65%	0.00%	1.83%	3.02%	2.90%	3.44%	3.12%	3.26%	4.19%	2.41%
2008-09	1.61%	2.50%	0.00%	1.75%	3.09%	2.90%	3.55%	3.88%	3.44%	4.22%	2.42%
2009-10	1.69%	2.53%	0.00%	2.04%	3.13%	3.07%	3.56%	3.45%	3.49%	4.35%	3.19%
2010-11	1.71%	2.64%	0.00%	2.06%	3.16%	3.23%	3.75%	3.52%	4.00%	4.30%	3.02%

Note: General sales taxes includes GST revenue federally, HST revenue for Quebec, New Brunswick, Nova Scotia, and Newfoundland, and PST revenue in British Columbia (HST in 2010/11), Ontario (HST in 2010/11), Saskatchewan, Manitoba, and Prince Edward Island. Alberta has no general sales tax.

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), and Statistics Canada.

FIGURE E.6: Fuel Taxes Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	0.38%	0.66%	0.42%	0.87%	0.82%	0.61%	0.84%	1.04%	0.77%	0.87%	0.89%
1990-91	0.47%	0.70%	0.53%	0.82%	0.77%	0.62%	0.75%	1.06%	0.82%	1.06%	0.95%
1991-92	0.50%	0.66%	0.66%	1.06%	0.85%	0.71%	0.72%	1.17%	0.80%	1.06%	1.14%
1992-93	0.49%	0.68%	0.69%	1.43%	0.83%	0.79%	0.77%	1.03%	0.93%	0.98%	1.11%
1993-94	0.50%	0.68%	0.61%	1.50%	0.87%	0.81%	0.78%	1.04%	0.96%	0.93%	1.23%
1994-95	0.50%	0.66%	0.58%	1.36%	0.82%	0.78%	0.79%	1.05%	1.05%	1.03%	1.23%
1995-96	0.54%	0.64%	0.57%	1.29%	0.80%	0.74%	0.79%	1.00%	1.02%	1.01%	1.16%
1996-97	0.53%	0.63%	0.55%	1.26%	0.77%	0.74%	0.81%	0.99%	1.02%	0.96%	1.16%
1997-98	0.53%	0.56%	0.52%	1.29%	0.73%	0.72%	0.79%	0.98%	1.00%	1.07%	1.17%
1998-99	0.52%	0.57%	0.51%	1.20%	0.72%	0.70%	0.79%	0.99%	0.99%	1.04%	1.08%
1999-00	0.48%	0.39%	0.49%	1.20%	0.68%	0.69%	0.74%	0.98%	0.95%	1.04%	1.07%
2000-01	0.45%	0.34%	0.40%	1.02%	0.66%	0.64%	0.68%	0.93%	0.82%	0.98%	0.93%
2001-02	0.44%	0.49%	0.39%	1.07%	0.63%	0.63%	0.66%	0.89%	0.80%	0.93%	0.92%
2002-03	0.43%	0.50%	0.40%	0.97%	0.63%	0.63%	0.68%	1.05%	0.91%	0.97%	0.83%
2003-04	0.41%	0.60%	0.36%	0.97%	0.62%	0.60%	0.67%	1.05%	0.87%	0.95%	0.75%
2004-05	0.39%	0.57%	0.34%	0.88%	0.59%	0.58%	0.65%	1.01%	0.83%	1.08%	0.72%
2005-06	0.37%	0.54%	0.30%	0.85%	0.57%	0.56%	0.61%	0.94%	0.79%	1.20%	0.64%
2006-07	0.35%	0.49%	0.31%	0.84%	0.54%	0.54%	0.59%	0.83%	0.77%	1.20%	0.56%
2007-08	0.34%	0.49%	0.29%	0.80%	0.51%	0.53%	0.56%	0.73%	0.76%	0.96%	0.51%
2008-09	0.32%	0.60%	0.25%	0.68%	0.45%	0.51%	0.54%	0.71%	0.71%	0.84%	0.48%
2009-10	0.31%	0.76%	0.31%	0.80%	0.45%	0.53%	0.55%	0.73%	0.73%	0.86%	0.69%
2010-11	0.30%	0.82%	0.29%	0.79%	0.44%	0.51%	0.58%	0.70%	0.70%	0.86%	0.63%

Note: Fuel taxes include the Carbon Tax in British Columbia, all provincial gasoline tax revenues, and other motive fuel tax revenue. Federal fuel tax revenue for 2009/10 and 2010/11 were estimated due to a lack of detail in the 2010/11 budget.

Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), and Statistics Canada.

FIGURE E.7: Tobacco Taxes Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	0.32%	0.42%	0.35%	0.52%	0.50%	0.28%	0.36%	0.56%	0.47%	0.63%	0.57%
1990-91	0.36%	0.44%	0.38%	0.48%	0.48%	0.31%	0.40%	0.54%	0.69%	0.78%	0.60%
1991-92	0.48%	0.53%	0.44%	0.49%	0.54%	0.36%	0.34%	0.44%	0.59%	0.80%	0.58%
1992-93	0.43%	0.55%	0.42%	0.54%	0.52%	0.34%	0.27%	0.36%	0.56%	0.77%	0.65%
1993-94	0.35%	0.51%	0.38%	0.48%	0.50%	0.25%	0.18%	0.30%	0.49%	0.69%	0.70%
1994-95	0.25%	0.51%	0.37%	0.47%	0.45%	0.10%	0.11%	0.23%	0.32%	0.48%	0.66%
1995-96	0.24%	0.46%	0.34%	0.43%	0.42%	0.10%	0.15%	0.23%	0.35%	0.49%	0.62%
1996-97	0.24%	0.45%	0.32%	0.40%	0.39%	0.11%	0.16%	0.25%	0.44%	0.50%	0.61%
1997-98	0.23%	0.42%	0.31%	0.43%	0.38%	0.12%	0.17%	0.25%	0.35%	0.50%	0.63%
1998-99	0.24%	0.44%	0.32%	0.42%	0.37%	0.12%	0.27%	0.27%	0.35%	0.47%	0.57%
1999-00	0.21%	0.41%	0.29%	0.40%	0.35%	0.12%	0.24%	0.25%	0.33%	0.44%	0.54%
2000-01	0.23%	0.35%	0.23%	0.36%	0.36%	0.11%	0.21%	0.25%	0.31%	0.42%	0.45%
2001-02	0.23%	0.37%	0.25%	0.36%	0.39%	0.15%	0.28%	0.34%	0.41%	0.50%	0.45%
2002-03	0.27%	0.44%	0.41%	0.46%	0.50%	0.25%	0.36%	0.43%	0.54%	0.59%	0.49%
2003-04	0.28%	0.44%	0.39%	0.48%	0.51%	0.27%	0.35%	0.45%	0.56%	0.68%	0.51%
2004-05	0.23%	0.44%	0.37%	0.46%	0.51%	0.28%	0.34%	0.41%	0.60%	0.68%	0.53%
2005-06	0.20%	0.41%	0.33%	0.39%	0.46%	0.26%	0.28%	0.37%	0.53%	0.68%	0.51%
2006-07	0.17%	0.40%	0.33%	0.42%	0.45%	0.22%	0.24%	0.32%	0.46%	0.56%	0.42%
2007-08	0.17%	0.36%	0.33%	0.37%	0.39%	0.19%	0.22%	0.30%	0.44%	0.53%	0.37%
2008-09	0.16%	0.36%	0.28%	0.31%	0.37%	0.18%	0.20%	0.38%	0.43%	0.61%	0.36%
2009-10	0.18%	0.36%	0.36%	0.36%	0.41%	0.19%	0.22%	0.34%	0.58%	0.69%	0.49%
2010-11	0.17%	0.35%	0.34%	0.41%	0.43%	0.16%	0.20%	0.33%	0.55%	0.68%	0.47%

Note: Federal Tobacco Tax revenues for 2009/10 and 2010/11 were estimated due to a lack of detail in the 2010/11 budget. Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), Physicians for a Smoke Free Canada, Dominion Bond Rating Service, and Statistics Canada.

FIGURE E.8: Other Taxes Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	0.90%	0.50%	0.13%	0.11%	0.16%	0.44%	0.00%	0.04%	0.00%	0.00%	0.89%
1990-91	0.78%	0.35%	0.16%	0.06%	0.14%	0.28%	0.00%	0.03%	0.00%	0.00%	0.95%
1991-92	0.48%	0.42%	0.15%	0.06%	0.09%	0.20%	0.00%	0.03%	0.00%	0.00%	1.14%
1992-93	0.68%	0.46%	0.15%	0.08%	0.08%	0.18%	0.00%	0.04%	0.00%	0.00%	1.11%
1993-94	0.66%	0.45%	0.15%	0.07%	0.08%	0.21%	0.00%	0.03%	0.00%	0.00%	1.23%
1994-95	0.60%	0.39%	0.16%	0.06%	0.10%	0.21%	0.00%	0.03%	0.00%	0.00%	1.23%
1995-96	0.50%	0.31%	0.16%	0.07%	0.07%	0.20%	0.00%	0.03%	0.00%	0.00%	1.16%
1996-97	0.54%	0.35%	0.16%	0.06%	0.07%	0.22%	0.00%	0.02%	0.00%	0.00%	1.16%
1997-98	0.54%	0.31%	0.16%	0.06%	0.06%	0.23%	0.00%	0.02%	0.00%	0.00%	1.17%
1998-99	0.42%	0.22%	0.15%	0.05%	0.05%	0.21%	0.00%	0.01%	0.00%	0.00%	1.08%
1999-00	0.34%	0.24%	0.16%	0.06%	0.06%	0.21%	0.00%	0.02%	0.00%	0.00%	1.07%
2000-01	0.34%	0.24%	0.21%	0.05%	0.06%	0.22%	0.00%	0.01%	0.00%	0.00%	0.93%
2001-02	0.40%	0.32%	0.25%	0.08%	0.07%	0.23%	0.00%	0.01%	0.00%	0.00%	0.92%
2002-03	0.44%	0.39%	0.17%	0.05%	0.06%	0.26%	0.00%	0.02%	0.00%	0.00%	0.83%
2003-04	0.39%	0.44%	0.20%	0.05%	0.07%	0.25%	0.00%	0.02%	0.00%	0.00%	0.75%
2004-05	0.39%	0.46%	0.19%	0.05%	0.08%	0.26%	0.00%	0.02%	0.00%	0.00%	0.72%
2005-06	0.38%	0.58%	0.18%	0.05%	0.10%	0.27%	0.00%	0.02%	0.00%	0.07%	0.64%
2006-07	0.44%	0.58%	0.16%	0.04%	0.12%	0.28%	0.00%	0.02%	0.00%	0.07%	0.56%
2007-08	0.42%	0.63%	0.12%	0.40%	0.12%	0.31%	0.00%	0.03%	0.00%	0.09%	0.51%
2008-09	0.40%	0.43%	0.12%	0.27%	0.13%	0.23%	0.00%	0.03%	0.00%	0.06%	0.48%
2009-10	0.40%	0.52%	0.09%	0.28%	0.12%	0.24%	0.00%	0.03%	0.00%	0.06%	0.69%
2010-11	0.39%	0.47%	0.09%	0.29%	0.12%	0.23%	0.00%	0.03%	0.00%	0.06%	0.63%

Note: Other taxes include: Land Transfer Taxes or a Real Estate Transfer Tax (e.g., BC, MB, ON, NB, and PEI); Hotel, Accommodations, and other Tourism-related taxes (e.g., BC and AB); specific levies on mining activities (e.g., AB, MB, NFLD); In some jurisdictions, other taxes may also include special sales taxes applied to alcoholic beverages and include charges on gaming activities such as provincial Pari-mutual taxes. In some provinces, the source of other taxation is not specified (e.g, ON). Other taxes federally are primarily restricted to Customs and Import Duties, and selective taxation applied over and above the GST on specific goods such as air conditioners and airline tickets. Source: Derived by Canada West Foundation from Federal and Provincial Public Accounts (1990-2009), Budgets (1990-2010), Dominion Bond Rating Service, and Statistics Canada.

APPENDIX F
MUNICIPAL PROPERTY TAXES

Introduction

This appendix reviews the municipal property tax as it is imposed in Saskatoon and Regina, and makes comparisons with Vancouver, Edmonton, Calgary, and Winnipeg. The property tax is the most important source of revenue for Saskatchewan's two largest cities. Not only is the property tax the only substantial tax available to them, it accounts for almost half of all their revenue. Provincial law provides the legal framework for the municipal property tax. Within this framework municipalities have a number of choices to make that affect the resulting tax load on each property. The following elements are important in the determination of the property tax liability:

- *Assessment:* Primarily a market-based system of assessment operating on a four year cycle using assessment data that is three years old.
- *Property Classification:* All properties are broken into classes. Examples include residential, non-residential (e.g., commercial and industrial), and agricultural land and property.
- *Taxable Assessment:* This is a percentage of the assessed value and is the amount upon which the property tax is based. Taxable assessment varies with the property classification.
- *Mill Rate:* This is the tax rate applicable to the taxable assessment expressed in dollars owed per each $1,000 of taxable assessment.
- *Mill Rate Factor:* An adjustment to the mill rate that results in a differential effective tax rate for various classifications of property. Mill rate factors are used to allocate needed tax revenues between or among property classifications.
- *Minimum Tax:* Municipalities imposing a minimum tax require all properties within a classification to pay the minimum regardless of the tax otherwise determined. The purpose of this tax tool is to increase the amount of tax revenue generated from lower assessed properties. That is, it allocates the needed tax revenue among properties within one property classification.
- *Base Tax:* This is a specified amount on each property within a particular classification and results in a lower mill rate. Consequently, base tax reduces the amount of tax between lower and higher assessed values within one property classification.

The Data

1) Municipal Property Tax Comparisons

Municipal property taxes in Saskatoon and Regina are generally competitive with other cities across western Canada. In 2009, the municipal residential property tax on an average house in

Saskatoon was only slightly higher than the average of Vancouver, Edmonton, Calgary, and Winnipeg. In Regina, it was lower. Residential municipal property taxes per capita in both Saskatoon and Regina are roughly the same as the average recorded by the other four cities, and the per capita property taxes on non-residential properties tends to be lower than the other cities. When combined, the residential and non-residential property taxes per capita in Saskatoon and Regina are lower than Vancouver, Edmonton, and Calgary, and comparable to Winnipeg. Both Saskatoon and Regina collect a higher percentage of their total property tax from residential properties than non-residential properties. In Saskatoon, residential property taxes are 70% of the total municipal property tax levy for 2009, and in Regina they are 63%. This is much higher than the other four cities. Finally, growth in municipal property taxes in Saskatoon and Regina has generally been slower when compared to the other cities. The only exception is Winnipeg, which has seen the slowest growth in municipal property taxes *(all data can be found in Figure F.1).*

2) Residential and Non-residential Property Tax Gap

A growing concern across Saskatchewan and many other western provinces concerns the higher effective rates of property tax levied on non-residential properties compared to residential properties *(Figure F.2).* This example illustrates the impact of the property classification system and the imposition of different mill rate factors on the determination of the effective rate of property tax—the relationship of the property tax paid to assessed value. In Saskatoon, the effective tax rate on non-residential property is 1.75 times that of residential properties. In Regina, the ratio is 1.95. In Saskatchewan—and this is by no means unusual considering other provinces—the effective rate of taxation on non-residential property can be more than twice that of residential property. Such differentials raise equity issues with application of the municipal property tax.

Both Saskatoon and Regina collect a higher percentage of their total municipal property tax from residential properties than non-residential properties when compared to other western cities. However, this does not diminish the fact that the effective rate of tax on non-residential properties is still much higher than residential properties. Further, the total property taxes paid per each dollar of assessed value by non-residential properties in Saskatoon and Regina is also much higher than Vancouver, Edmonton, and Calgary. In 2009, the City of Saskatoon commissioned a benchmarking study to be completed by Garman, Weimer &Associates Ltd. This study sheds further light on the residential and non-residential component of the municipal property tax *(Figure F.3).* The effective rate of municipal property tax per $100,000 of assessed value is much higher in both Saskatoon and Regina than in the other cities. This holds for both residential and non-residential properties. At the end of the day, Saskatoon and Regina are collecting property tax from a much smaller property tax base, and this means more pressure being placed on that base.

3) Municipal Property Taxes in Saskatchewan as a Percentage of GDP

Total collections of municipal property tax across Saskatchewan for 2010/11 is estimated at 1.40% of GDP. This is lower than British Columbia, Alberta, and Ontario, but slightly higher than Manitoba. Across the other nine provinces, municipal property taxes as a percentage of GDP average 1.91%. Again, Saskatchewan seems to be competitive with respect to the total amounts being collected, although issues such as the gap in the effective tax rate for residential and non-residential properties remain *(Figure F.4)*.

Issues and Concerns

The property tax has little to recommend it as a source of revenue for any level of government. Generally, the most positive attributes are that it is relatively easy to administer and that it is difficult to avoid or evade. On the other hand, the property tax is not equitable and it is not transparent or simple to understand. Because it is not transparent, local governments are less accountable than they could be. Most tax policy writers say that an equitable tax is a tax that is proportionate or progressive when compared to a broad measure of income. A minority of people believe that a tax can be equitable if the tax increases or is proportionate to wealth. Still, other people believe that a property tax would be fair if it was related to the benefits received from the jurisdiction. Regardless of what you use—income, wealth or benefits received—the property tax is not an equitable tax. Two of the available property tax tools—the *Minimum Tax* and the *Base Tax*—would make it possible for the property tax within a single classification to be more consistent with the benefits received from a municipal government. However, few jurisdictions use either of those tools, and they complicate the tax. The two largest cities in Saskatchewan appear to shy away from them because they would result in a shift of the property tax burden to lower assessed properties.

Improving Municipal Property Taxes

While the property tax has little to recommend it from a fairness or transparency point of view, it can be improved. First, equity can be improved by eliminating the differential in effective tax between residential and non-residential properties. There is no economic or tax policy reason for the effective tax rate differential between residential and non-residential property, and in fact, there are probably adverse economic consequences. It has been suggested that the differential might be justified because non-residential property receives more benefits from local government than residential property. We have found no evidence to confirm this.

Second, transparency of the municipal property tax system could be improved by shortening the assessment cycle to two years. The assessment cycle—how often properties are revalued—is the longest in Saskatchewan when compared to the other prairie provinces. In Alberta, properties are revalued on an annual basis, and Manitoba moved to a two year cycle in 2010. Saskatchewan is out of step with a four year cycle.

Third, the number of variables that come into play in the determination of the tax can be reduced. Currently, there are at least three variables used by Saskatoon and Regina that affect the effective rate of tax. These are property classification, mill rate, and the mill rate factor. It should be possible and feasible to simplify the structure to express municipal property taxes as a percentage of assessed value. In other words, the focus could turn to the effective property tax rate, which is a simple measure of the property tax paid relative to assessed value. Reducing the assessment cycle and expressing municipal taxes as a percentage of assessed value will improve upon equity, visibility, transparency, accountability, and understandability.

FIGURE F.1: Key Municipal Property Tax Data

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Municipal Property Tax on an Average House						
Average Residential Municipal Property Tax 2005	$1,786	$1,095	$780	$1,197	$1,302	$1,240
Average Residential Municipal Property Tax 2009	$2,073	$1,434	$989	$1,502	$1,309	$1,274
Growth From 2005 to 2009	**16.07%**	**30.96%**	**26.79%**	**25.48%**	**0.54%**	**2.74%**
Per Capita Residential Municipal Property Tax						
Residential Municipal Property Tax Per Capita 2005	$417	$376	$329	$368	$432	$380
Residential Municipal Property Tax Per Capita 2009	$543	$522	$422	$435	$483	$408
Growth From 2005 to 2009	**30.22%**	**38.83%**	**28.27%**	**18.21%**	**11.81%**	**7.37%**
Per Capita Non-residential Municipal Property Tax						
Non-residential Municipal Property Tax Per Capita 2005	$468	$388	$511	$169	$257	$293
Non-residential Municipal Property Tax Per Capita 2009	$512	$541	$607	$186	$284	$276
Growth From 2005 to 2009	**9.40%**	**39.43%**	**18.79%**	**10.06%**	**10.51%**	**-5.80%**
Municipal Residential as a % of Total Municipal Levy						
Municipal Residential Tax Levy 2005 (000s)	$248,985	$267,854	$314,700	$73,792	$77,187	$247,244
Municipal Non-residential Tax Levy 2005 (000s)	$279,912	$276,361	$488,800	$33,896	$46,034	$190,654
Total Municipal Tax Levy 2005 (000s)	$528,897	$544,215	$803,500	$107,688	$123,221	$437,898
Residential as a Percentage of Total Levy 2005	**47.08%**	**49.22%**	**39.17%**	**68.52%**	**62.64%**	**56.46%**
Municipal Residential Tax Levy 2009 (000s)	$341,198	$408,540	$449,100	$94,562	$90,909	$275,500
Municipal Non-residential Tax Levy 2009 (000s)	$321,789	$423,269	$646,400	$40,438	$53,420	$186,619
Total Municipal Tax Levy 2009 (000s)	$662,987	$831,809	$1,095,500	$135,000	$144,329	$462,119
Residential as a Percentage of Total Levy 2009	**51.46%**	**49.11%**	**40.99%**	**70.05%**	**62.99%**	**59.62%**
Growth in Municipal Residential and Non-residential Tax Revenue						
1990 Municipal Property Tax Revenue (000s)	$298,096	$311,951	$390,421	$65,584	$82,437	$360,267
2009 Municipal Property Tax Revenue (000s)	$688,242	$799,930	$1,111,313	$136,350	$139,724	$500,713
Growth From 2005 to 2009	**130.88%**	**156.43%**	**184.64%**	**107.90%**	**69.49%**	**38.98%**
1990 Municipal Property Tax Revenue Per Capita	$624	$515	$563	$355	$462	$577
2009 Municipal Property Tax Revenue Per Capita	$1,095	$1,022	$1,043	$628	$742	$742
Growth From 2005 to 2009	**75.48%**	**98.45%**	**85.26%**	**76.90%**	**60.61%**	**28.60%**
1990 Municipal Property Tax Revenue as % GDP	2.59%	1.79%	1.96%	1.69%	2.19%	2.64%
2009 Municipal Property Tax Revenue as % GDP	2.58%	1.57%	1.60%	1.16%	1.38%	1.79%
Growth From 2005 to 2009	**-0.39%**	**-12.29%**	**-18.37%**	**-31.36%**	**-36.99%**	**-32.20%**

Source: Derived by Canada West Foundation from Edmonton Property Tax and Utility Surveys (2005 and 2009), Annual Financial Reports of the Cities (1990-2009), and Statistics Canada.

FIGURE F.2: Municipal Property Tax Calculation Example, 2010

	Assessed Value	Inclusion Rate	Taxable Assessment	Mill Rate	Mill Rate Factor	Property Tax	Effective Tax Rate	Effective Differential
Saskatoon								
Residential Property	$300,000	70%	$210,000	11.0845	0.9456	$2,201.12	0.73%	
Non-Residential Property	**$300,000**	**100%**	**$300,000**	**11.0845**	**1.1612**	**$3,861.40**	**1.29%**	**1.75**
Regina								
Residential Property	$300,000	70%	$210,000	14.0469	0.90059	$2,656.60	0.89%	
Non-Residential Property	**$300,000**	**100%**	**$300,000**	**14.0469**	**1.22945**	**$5,180.99**	**1.73%**	**1.95**

Source: Developed by Canada West Foundation.

FIGURE F.3: Effective Property Tax Rates Per $100,000 of Assessed Value, 2009

	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Residential Property	$396	$264	$775	$939	$1,145
Non-Residential Property	**$1,045**	**$821**	**$1,399**	**$1,837**	**$1,654**
Total Residential and Non-residential	**$1,441**	**$1,085**	**$2,174**	**$2,776**	**$2,799**

Source: Derived by Canada West Foundation from Garman, Weimer, and Associates (*Municipal Services Benchmark Project Study*, 2009).

FIGURE F.4: Municipal Property Taxes Collected as a % of GDP, 1989/90 to 2010/11

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	0.00%	1.64%	1.69%	2.01%	1.81%	1.76%	2.91%	1.25%	1.97%	0.73%	1.66%
1990-91	0.00%	1.72%	1.69%	1.93%	1.89%	1.96%	3.01%	1.34%	2.08%	0.74%	1.67%
1991-92	0.00%	1.83%	1.87%	2.02%	2.03%	2.12%	3.18%	1.49%	2.13%	0.84%	1.78%
1992-93	0.00%	1.87%	1.89%	2.07%	2.15%	2.25%	3.32%	1.61%	2.80%	0.85%	1.95%
1993-94	0.00%	1.90%	1.82%	1.97%	2.19%	2.33%	3.58%	1.60%	2.32%	0.77%	1.93%
1994-95	0.00%	1.98%	1.72%	1.80%	2.15%	2.22%	3.53%	1.60%	2.36%	0.83%	1.71%
1995-96	0.00%	1.96%	1.84%	1.73%	2.19%	2.13%	3.46%	1.55%	2.30%	0.79%	1.68%
1996-97	0.00%	1.94%	1.72%	1.58%	1.90%	2.10%	3.39%	1.62%	2.34%	1.06%	1.78%
1997-98	0.00%	1.99%	1.73%	1.63%	1.91%	2.00%	3.22%	1.65%	2.29%	1.11%	1.62%
1998-99	0.00%	2.01%	1.80%	1.73%	1.92%	1.97%	3.15%	1.64%	2.24%	1.11%	1.51%
1999-00	0.00%	1.94%	1.76%	1.73%	1.91%	2.48%	3.00%	1.58%	2.17%	1.08%	1.49%
2000-01	0.00%	1.86%	1.43%	1.60%	1.79%	2.45%	2.87%	1.58%	2.09%	1.04%	1.36%
2001-02	0.00%	1.95%	1.46%	1.63%	1.70%	2.32%	2.84%	1.59%	2.11%	1.05%	1.35%
2002-03	0.00%	1.97%	1.59%	1.68%	1.58%	2.35%	2.63%	1.63%	2.14%	1.00%	1.28%
2003-04	0.00%	1.92%	1.45%	1.60%	1.61%	2.36%	2.61%	1.62%	2.07%	1.05%	1.22%
2004-05	0.00%	1.83%	1.39%	1.49%	1.54%	2.39%	2.61%	1.59%	2.16%	1.03%	1.20%
2005-06	0.00%	1.77%	1.31%	1.43%	1.51%	2.44%	2.68%	1.63%	2.13%	1.07%	1.15%
2006-07	0.00%	1.74%	1.33%	1.48%	1.44%	2.52%	2.72%	1.66%	2.25%	1.15%	0.99%
2007-08	0.00%	1.79%	1.40%	1.41%	1.40%	2.48%	2.71%	1.73%	2.26%	1.14%	0.91%
2008-09	0.00%	1.85%	1.44%	1.17%	1.26%	2.62%	2.83%	1.80%	2.21%	1.17%	0.91%
2009-10	0.00%	2.04%	1.87%	1.42%	1.34%	2.82%	2.90%	1.87%	2.33%	1.16%	1.29%
2010-11	0.00%	2.00%	1.78%	1.40%	1.32%	2.77%	2.86%	1.85%	2.29%	1.13%	1.19%

Note: Municipal property tax collections include general residential, commercial, and industrial property tax, local improvement levies and special assessments, lot levies, frontage charges, development charges, business occupancy taxes, revenue-in-lieu of property tax, and other property related taxes.

Source: Derived by Canada West Foundation from Statistics Canada.

APPENDIX G
EDUCATION PROPERTY TAX

Introduction

This appendix explores the education property tax in Saskatoon and Regina, and compares that to the cities of Vancouver, Edmonton, Calgary, and Winnipeg. The education property tax is largely under the control of the province, and it is a much simpler tax to understand. The number of variables in the education property tax is reduced to two—property classification and the mill rate.

The Data

1) Education Property Tax Comparisons

When it comes to the education property tax, the competitiveness of Saskatoon and Regina tends to suffer a deterioration. For an average single detached house in 2009, the residential education property tax paid in Saskatoon is $1,366. This is the highest of all the six big western cities, easily surpassing Edmonton's $790 and Calgary's $884 *(Figure G.1)*. While education property taxes in Regina are lower than in Saskatoon, they are still higher than those of Edmonton and Calgary. In 2009, per capita residential education property taxes in Saskatoon and Regina are comparable, but the two Saskatchewan cities do record higher rates of non-residential education property tax, particularly with respect to Edmonton and Calgary. When per capita residential and non-residential education property taxes are combined, the values for Saskatoon and Regina are higher than Vancouver, Edmonton, and Calgary. For example, the per capita residential and non-residential education property tax was $606 in Regina compared to $399 in Edmonton. This is a difference of over 50%.

When residential education property taxes are combined with municipal property taxes, Saskatoon emerges with the highest total residential property tax burden of any of the six big western cities at $2,868 ($1,502 for municipal purpose and $1,366 for education purpose) and Regina emerges with the third highest total property tax bill $2,292 ($1,309 for municipal purpose and $983 for education purpose). The differences here are substantial. Saskatoon's total property tax bill for a single detached house in 2009 is almost $1,000 higher than that of Calgary. Regina's total property tax bill is $420 higher than that of Calgary. While the municipal property tax bill does play a role here, so does the education property tax.

At the same time, one cannot ignore the Government of Saskatchewan's recent reductions in the amount of education property tax that it collects. For property taxpayers, this was welcomed. The move also shows up in the property tax data. Between 2005 and 2009, the education property tax on an average home fell for both Saskatoon and Regina. The per capita residential and per capita non-residential education property tax fell as well. In short, education property taxes in Saskatoon and Regina tend to be higher than those in Vancouver, Edmonton, and Calgary, although they are moving in a downward direction. If that trend continues it would bring education property taxes more closely in line with other western cities.

2) Residential and Non-residential Property Tax Gap

In January 2009, the Legislative Secretary to the Minister of Education issued a report, *A Decision for Our Future*, to the Government of Saskatchewan. The report resulted in a significant shift from reliance on property taxes for education to reliance on other provincial sources of revenue. The education property tax that remains is weighted heavily against non-residential property. Again, it starts with a different percentage of value being included in the taxable base (100% for non-residential and 70% for residential) and a higher mill rate for the non-residential classification (on average this rate is approximately 15 mills compared to 9.5 mills for residential property). In 2010, non residential property is subject to a three tier mill rate structure based on the value of the property:

- Assessed value to $500,000 — 11.85 mills
- Assessed value from $500,001 to $6,000,000 — 15.45 mills
- Assessed value over $6,000,000 — 18.28 mills

Again, all of this results in non-residential properties being taxed at a higher effective rate than residential properties. Running calculations on a residential and a non-residential property, both assessed at $300,000, shows that a non-residential property owner pays 2.3 times what a residential property owner pays *(Figure G.2).* The effective tax rate for a residential property owner is 0.67% (education property tax is 0.67% of assessed value) while the effective tax rate for non-residential property owner is 1.55%. Just like the municipal property tax, this raises equity and fairness issues, and the effective differential for the education property tax is higher than the current 2009 differential for the municipal property tax in both Saskatoon and Regina.

The effective education property tax rates for residential and non-residential properties in Alberta changed when the Alberta Government took over the administration of the education property tax in 1993. In recent years, there has been a two rate structure—residential and non-residential. The ratio of the effective rates on those classifications has generally been around 1.47.

3) Municipal Property Taxes in Saskatchewan as a Percentage of GDP

Across Saskatchewan, education property taxes as a percentage of GDP for 2010/11 are estimated at 1.43% of provincial GDP. This is higher than British Columbia (0.96%), Alberta (0.66%), and Ontario (1.15%), but the same as Manitoba (1.43%). Of the other eight provinces that collect a provincial or education property tax, the average ratio is 1.03%. Clearly, Saskatchewan's education property taxes are on the higher end *(Figure G.3).*

Issues and Concerns

As noted in *Appendix F,* the property tax has little to recommend it from a policy perspective. The education component, with the mill rate differential and the three tiered rate structure on non-residential property, does nothing to improve on the property tax. While administration of the education property tax is perhaps less complex than the municipal property tax, this also makes the larger property tax system even harder to understand as taxpayers find themselves negotiating around two different administrative approaches to the tax.

In terms of Saskatchewan's competitiveness, the non-residential education property tax also hits on new business and capital investment. Typically, most calculations of the *marginal effective tax rate (METR)* on capital ignore education property taxes because there is just too much variation in how the tax is applied across the various provinces. However, some work in this area has been done. One report showed that the non-residential education property tax in Saskatchewan does result in a loss of competitiveness with respect to METR *(see Appendix H).*

Improving Education Property Taxes

The comments we have made above regarding the municipal portion of the property tax are also relevant to the education property tax component. Transparency, accountability, and simplicity would all be enhanced with an effective tax rate by property classification and a shorter assessment cycle. In fact, these attributes could only really be improved if advances were made on both the municipal and education property tax.

FIGURE G.1: Key Education Property Tax Data

	Vancouver	Edmonton	Calgary	Saskatoon	Regina	Winnipeg
Education Property Tax on an Average House						
Average Residential Education Property Tax 2005	$1,257	$730	$798	$1,494	$1,200	$1,259
Average Residential Education Property Tax 2009	$1,236	$790	$884	$1,366	$983	$1,284
Growth From 2005 to 2009	-1.67%	8.22%	10.78%	-8.57%	-18.08%	1.99%
Per Capita Residential Education Property Tax						
Residential Education Property Tax Per Capita 2005	$293	$240	$335	$459	$367	$382
Residential Education Property Tax Per Capita 2009	$324	$281	$376	$393	$362	$407
Growth From 2005 to 2009	10.58%	17.08%	12.24%	-14.38%	-1.36%	6.54%
Per Capita Non-residential Education Property Tax						
Non-residential Education Property Tax Per Capita 2005	$260	$112	$147	$211	$229	$286
Non-residential Education Property Tax Per Capita 2009	$333	$118	$167	$204	$244	$296
Growth From 2005 to 2009	28.08%	5.36%	13.61%	-3.32%	6.55%	3.50%
Education Residential as a % of Total Education Levy						
Education Residential Tax Levy 2005 (000s)	$175,096	$170,712	$320,500	$92,129	$65,708	$248,828
Education Non-residential Tax Levy 2005 (000s)	$155,128	$79,693	$140,900	$42,319	$40,884	$186,376
Total Education Tax Levy 2005 (000s)	$330,224	$250,405	$461,400	$134,448	$106,592	$435,204
Residential as a Percentage of Total Levy 2005	53.02%	68.17%	69.46%	68.52%	61.64%	57.18%
Education Residential Tax Levy 2009 (000s)	$203,443	$219,742	$400,100	$85,447	$68,107	$274,723
Education Non-residential Tax Levy 2009 (000s)	$209,217	$92,150	$177,500	$44,219	$46,004	$199,722
Total Education Tax Levy 2009 (000s)	$412,660	$311,892	$577,600	$129,666	$114,111	$474,445
Residential as a Percentage of Total Levy 2009	49.30%	70.45%	69.27%	65.90%	59.68%	57.90%
Growth in Education Residential and Non-residential Tax Revenue						
1990 Education Property Tax Revenue (000s)	$250,647	$221,901	$230,917	$77,556	$76,632	$268,789
2009 Education Property Tax Revenue (000s)	$395,683	$314,899	$577,559	$131,783	$113,548	$451,443
Growth From 2005 to 2009	57.86%	41.91%	150.12%	69.92%	48.17%	67.95%
1990 Education Property Tax Revenue Per Capita	$525	$366	$333	$420	$429	$431
2009 Education Property Tax Revenue Per Capita	$629	$402	$542	$607	$603	$669
Growth From 2005 to 2009	19.81%	9.84%	62.76%	44.52%	40.56%	55.22%
1990 Education Property Tax Revenue as % GDP	2.18%	1.27%	1.16%	2.00%	2.04%	1.97%
2009 Education Property Tax Revenue as % GDP	1.49%	0.62%	0.83%	1.12%	1.12%	1.61%
Growth From 2005 to 2009	-31.65%	-51.18%	-28.45%	-44.00%	-45.10%	-18.27%

Source: Derived by Canada West Foundation from Edmonton Property Tax and Utility Surveys (2005 and 2009), Annual Financial Reports of the Cities (1990-2009), and Statistics Canada.

FIGURE G.2: Education Property Tax Calculation Example, 2010

	Assessed Value	Inclusion Rate	Taxable Assessment	Mill Rate	Property Tax	Effective Tax Rate	Effective Differential
Province-Wide							
Residential Property	$300,000	70%	$210,000	9.5100	$1,997.10	0.67%	
Non-Residential Property	$300,000	100%	$300,000	15.4500	$4,635.00	1.55%	2.32

Source: Developed by Canada West Foundation.

FIGURE G.3: Education Property Taxes Collected as a % of GDP (1989/90 to 2010/11)

	FED	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
1989-90	0.00%	1.56%	1.27%	1.90%	1.90%	1.76%	0.17%	1.14%	0.66%	1.17%	0.00%
1990-91	0.00%	1.57%	1.26%	1.91%	1.91%	2.05%	0.17%	1.20%	0.68%	1.24%	0.00%
1991-92	0.00%	1.61%	1.40%	2.00%	2.03%	2.33%	0.27%	1.31%	0.73%	1.29%	0.00%
1992-93	0.00%	1.16%	1.52%	2.12%	2.06%	2.54%	0.40%	1.37%	0.90%	1.41%	0.00%
1993-94	0.00%	1.24%	1.52%	2.01%	2.09%	2.67%	0.42%	1.36%	0.74%	1.42%	0.00%
1994-95	0.00%	1.24%	1.47%	1.92%	2.05%	2.60%	0.41%	1.34%	0.73%	1.67%	0.00%
1995-96	0.00%	1.20%	1.65%	1.82%	2.02%	2.50%	0.41%	1.37%	0.72%	1.58%	0.00%
1996-97	0.00%	1.20%	1.36%	1.73%	1.96%	2.49%	0.41%	1.31%	0.71%	1.35%	0.00%
1997-98	0.00%	1.15%	1.24%	1.76%	1.94%	2.39%	0.42%	1.35%	0.68%	1.32%	0.00%
1998-99	0.00%	1.18%	1.23%	1.84%	1.90%	2.36%	0.46%	1.27%	0.65%	1.27%	0.00%
1999-00	0.00%	1.16%	1.09%	1.80%	1.91%	1.39%	0.49%	1.15%	0.63%	1.23%	0.00%
2000-01	0.00%	1.08%	0.88%	1.74%	1.86%	1.32%	0.46%	1.17%	0.60%	1.22%	0.00%
2001-02	0.00%	1.08%	0.87%	1.82%	1.87%	1.27%	0.46%	1.21%	0.58%	1.28%	0.00%
2002-03	0.00%	1.06%	0.83%	1.88%	1.87%	1.21%	0.44%	1.28%	0.56%	1.27%	0.00%
2003-04	0.00%	1.05%	0.74%	1.82%	1.92%	1.18%	0.43%	1.24%	0.55%	1.32%	0.00%
2004-05	0.00%	0.99%	0.70%	1.70%	1.87%	1.13%	0.42%	1.20%	0.55%	1.31%	0.00%
2005-06	0.00%	0.97%	0.64%	1.62%	1.77%	1.12%	0.43%	1.29%	0.55%	1.37%	0.00%
2006-07	0.00%	0.93%	0.61%	1.62%	1.48%	1.10%	0.45%	1.28%	0.57%	1.34%	0.00%
2007-08	0.00%	0.89%	0.59%	1.48%	1.37%	1.06%	0.45%	1.27%	0.51%	1.36%	0.00%
2008-09	0.00%	0.86%	0.54%	1.26%	1.41%	1.10%	0.48%	1.31%	0.50%	1.47%	0.00%
2009-10	0.00%	0.98%	0.69%	1.45%	1.46%	1.17%	0.48%	1.37%	0.51%	1.76%	0.00%
2010-11	0.00%	0.96%	0.66%	1.43%	1.43%	1.15%	0.47%	1.35%	0.50%	1.73%	0.00%

Note: Education property tax collections are general residential, commercial, and industrial property tax including revenue-in-lieu of property tax. Property taxes for education are the combined property tax collections of school boards and provincial governments. Provincial Real Estate Transfer Taxes and Corporate Capital Taxes (included in Statistics Canada's property tax totals) are not included. These tax revenues are not typically earmarked for education purposes. Newfoundland collects no property taxes for education. Education is funded through personal income tax revenue and a partial earmarking of payroll tax revenues.

Source: Derived by Canada West Foundation from Statistics Canada.

APPENDIX H
MARGINAL EFFECTIVE TAX RATE (METR) ON CAPITAL

Introduction

Like the *marginal tax rate (MTR)* of the personal income tax, the *marginal effective tax rate (METR)* on capital investment is an important competitive measure. The METR combines various business and corporate taxes that affect new capital investment (e.g., corporate income tax, capital taxes, sales taxes) and calculates a single *marginal* tax rate. This *marginal* tax rate is the value of all taxes paid—expressed as a percentage—on the gross return to capital for a new marginal or "break-even" investment (Chen and Mintz 2008). Jurisdictions with a high METR on capital will find it harder to attract new investment because the gross return needed on an investment must be higher to compensate for the higher rate of tax.

The Data

The federal Department of Finance, the CD Howe Institute, the School of Policy Studies at the University of Calgary, and Professor Ken McKenzie of the University of Calgary have all been involved in the development and use of the METR. The data that follow were collected from these various sources and include two different methods of calculation. For the Figures of this appendix, the CD Howe method of calculating METR is labelled as *Source A* and the Department of Finance method is labelled as *Source B*.

1) Marginal Effective Tax Rate (METR) on Capital

METRs for each province across a range of years have been published *(Figure H.1)*. For 2008, Saskatchewan emerges with the second lowest METR in western Canada (28.6%). This is higher than Alberta (22.0%) but lower than British Columbia (30.9%), Manitoba (33.8%), and Ontario (34.8%). The spread is due to a number of factors that act separately from the statutory corporate income tax rate. The METR is a function of a number of corporate taxes, including the impact of provincial sales taxes, along with various credits, exemptions, and deductions in the federal and provincial corporate income tax systems.

The relatively low METR in Atlantic Canada results in part from the federal government's *Atlantic Investment Tax Credit*, which provides significant tax relief for resource and manufacturing investments in Atlantic Canada. Another important factor is the impact of harmonized sales taxes. In Atlantic Canada, New Brunswick, Nova Scotia, and Newfoundland and Labrador all use an HST, and this is generating huge rewards in the form of a lower METR on capital investment. The reason is clear—provincial PST is a general retail sales tax (RST) that taxes various business inputs and results in a higher METR whereas the GST is a value-added (VAT) tax that exempts business inputs from sales tax.

A separate calculation of METR was published in 2007 by the federal Department of Finance using somewhat different assumptions and methodology, which resulted in a different METR calculation *(Figure H.2)*. These data do, however, illustrate the same general pattern.

A: The Tax Level
B: The Tax Mix
C: Personal Income Tax
D: Corporate Taxation
E: Sales Taxes
F: Municipal Property Taxes
G: Education Property Tax
H: Marginal Effective Tax Rate on Capital
I: Evaluative Criteria
J: Survey Results
Main Report
Glossary

Saskatchewan is in second place in western Canada (23.4%) after Alberta (16.6%), but ahead of BC (28.0%), Manitoba (32.2%), and Ontario (30.6%).

However, all of these METR data are changing. British Columbia, Manitoba, and Ontario are all moving to lower their rates of corporate income tax. BC and Ontario are also eliminating the financial corporate capital tax and both are pursuing harmonization of their provincial sales taxes. All of these tax moves will result in a substantially lower METR for British Columbia and Ontario. This will erode Saskatchewan's historically competitive position.

2) The Impact of Provincial Sales Taxes

In 2007, a calculation was conducted that measured the change in METR that would occur if all provinces with a provincial sales tax (retail sales tax) harmonized with the federal GST. The results show that the move would have a substantial affect on the METR for many provinces *(Figure H.3)*. In British Columbia, the 2007 METR would fall from 31.6% to 23.1%, an 8.5 percentage point drop. Equivalent drops would occur in Saskatchewan (8.7 percentage points), Manitoba (9.1 percentage points), and Ontario (8.9 percentage points).

A separate calculation was also conducted for 2007 based on other data *(Figure H.4)* and the results are similar. Moving to harmonize the sales tax would lower BC's METR (10.0 percentage points) as well as the METR in Saskatchewan (5.8 percentage points), Manitoba (11.8 percentage points), and Ontario (11.2 percentage points.)

When it comes to the METR on capital, Saskatchewan needs to exercise caution and take steps to protect its competitive position, whether that is looking at the provincial sales tax or the corporate income tax. British Columbia, Ontario, and Manitoba are all planning to reduce their corporate income taxes into 2011, and both BC and Ontario have pursued harmonization. The result will be a dramatically lower METR. According to the data, all of that would leave Saskatchewan, Manitoba, and PEI with the highest provincial METRs in Canada.

3) The Impact of Education Property Taxes

The provincial sales tax, combined with the basket of corporate taxes, affects Saskatchewan's ability to attract new capital investment. There remains dispute as to whether property taxes should also be included in the METR calculation. On the one hand, the non-residential property tax certainly taxes investment. But some see the property tax more as a "fee" for service as opposed to a pure "tax." Also, there is such great variation in how property taxes are used and implemented that meaningful comparison across provinces are very difficult.

However, some initial explorations have been undertaken in this area by researchers working for the Greater Saskatchewan Chamber of Commerce and the Regina and District Chamber of Commerce *(Figure H.5)*. This work examined the impact on METR of provincial education property taxes, and takes off from the 2008 METR calculations as published by the CD Howe Institute *(Figure H.1)*. The results show that the education property tax has an impact on Saskatchewan's METR when compared to Alberta. In the absence of any education property taxes, the METR in Saskatchewan is 6.6 percentage points higher than that of Alberta. When education property taxes are included, the spread widens to 9.1 percentage points. If the education property tax in Saskatchewan were to be reduced, the competitive gap could be reduced substantially, although much also depends on how much the non-residential education property tax is reduced and what provincial revenue source is eventually substituted.

Final Word

The *marginal effective tax rate (METR) on capital* is only one competitive measure. The *average effective tax rate* (AETR) on existing business incomes and investment is another important measure. The AETR measures the total corporate tax bite on *existing* business income and investment. While the AETR too needs to remain competitive, the METR speaks more directly to the tax bite on all *new* business and capital investment. Because capital investment is highly sensitive to tax rates, and additional investment is so fundamental to economic growth and productivity enhancement, governments are well-advised to pay close attention to emerging research when it comes the METR on capital.

FIGURE H.1: Marginal Effective Tax Rate (METR) on Capital by Province (2000-2008) ***(Source A)***

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
2000	48.40%	41.80%	47.30%	46.60%	48.10%	34.50%	33.40%	30.40%	42.50%	29.20%
2001	47.90%	39.70%	46.70%	46.00%	47.10%	34.10%	31.60%	29.60%	41.90%	28.40%
2002	44.00%	37.70%	45.70%	44.50%	45.50%	33.10%	29.50%	27.90%	40.60%	26.80%
2003	42.20%	35.90%	44.60%	43.10%	44.70%	38.50%	25.60%	31.10%	39.30%	25.20%
2004	40.20%	32.40%	44.20%	40.40%	43.70%	36.50%	22.90%	28.70%	36.50%	21.80%
2005	39.30%	31.80%	43.80%	39.70%	43.40%	36.30%	22.50%	28.20%	37.70%	21.40%
2006	37.30%	29.00%	38.30%	37.90%	42.20%	30.80%	19.60%	26.00%	36.70%	19.20%
2007	31.60%	23.00%	30.20%	32.50%	37.00%	25.20%	6.60%	17.50%	30.60%	11.40%
2008	30.90%	22.00%	28.60%	33.80%	34.80%	21.50%	11.80%	20.70%	33.60%	15.00%

Note: The marginal effective tax rate (METR) on capital is the rate of tax that applies to the last unit of capital made in an investment. METR is a measure of the amount of taxes paid as a percentage of the return earned on a marginal investment project. The METR values above include corporate income taxes, capital taxes, and sales taxes on capital components.

Source: Compiled by Canada West Foundation from data in various CD Howe Institute publications. See Chen, Duanjie and Mintz, Jack (CD Howe Institute E-Brief dated June 20, 2006); Chen, Duanjie; Mintz, Jack; and Tarasov, Andrey (CD Howe Backgrounder No. 102 dated July 2007); Chen, Duanjie (CD Howe E-Brief dated December 18, 2007); and Chen, Duanjie and Mintz, Jack (CD Howe Institute Commentary No. 270 dated July 2008).

FIGURE H.2: Marginal Effective Tax Rate (METR) on Capital by Province and Component (2007) ***(Source B)***

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Federal CIT	10.00%	10.00%	9.90%	9.30%	10.20%	10.10%	-0.30%	3.50%	3.10%	4.30%
Provincial CIT	8.00%	6.60%	7.70%	5.20%	9.20%	8.00%	9.20%	11.20%	9.70%	8.90%
Provincial CCT	0.00%	0.00%	0.00%	5.90%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Provincial PST	10.00%	0.00%	5.80%	11.80%	11.20%	0.70%	0.00%	0.00%	15.70%	0.00%
Total METR on Capital	28.00%	16.60%	23.40%	32.20%	30.60%	18.80%	8.90%	14.70%	28.50%	13.20%

Source: Derived by Canada West Foundation from the Business Council of Manitoba and the Asper School of Business, *Tax Commission Report*, 2010.

FIGURE H.3: Increase in the Marginal Effective Tax Rate (METR) Due to Provincial Retail Sales Taxes (RST), 2007 ***(Source A)***

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
METR (With RST)	31.60%	23.00%	30.20%	32.50%	37.00%	25.20%	6.60%	17.50%	30.60%	11.40%
METR (Without RST)	23.10%	23.00%	21.50%	23.40%	28.10%	24.90%	6.60%	17.50%	10.20%	11.40%
Difference	8.50%	0.00%	8.70%	9.10%	8.90%	0.30%	0.00%	0.00%	20.40%	0.00%

Source: Derived by Canada West Foundation from Chen, Duanjie; Mintz, Jack; and Tarasov, Andrey (CD Howe Backgrounder No. 102 dated July 2007).

FIGURE H.4: Increase in the Marginal Effective Tax Rate (METR) Due to Provincial Retail Sales Taxes (RST), 2007 *(Source B)*

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
METR (With RST)	28.00%	16.60%	23.40%	32.20%	30.60%	18.80%	8.90%	14.70%	28.50%	13.20%
METR (Without RST)	18.00%	16.60%	17.60%	20.40%	19.40%	18.10%	8.90%	14.70%	12.80%	13.20%
Difference	**10.00%**	**0.00%**	**5.80%**	**11.80%**	**11.20%**	**0.70%**	**0.00%**	**0.00%**	**15.70%**	**0.00%**

Source: Derived by Canada West Foundation from the Business Council of Manitoba and the Asper School of Business, *Tax Commission Report*, 2010.

FIGURE H.5: Increase in the Marginal Effective Tax Rate (METR) Due to Education Property Taxes, 2009 *(Using Source A)*

	Saskatchewan	Alberta	Difference
METR (With Education Property Tax)	33.33%	24.20%	**9.13%**
METR (Without Education Property Tax)	28.60%	22.00%	**6.60%**
Difference	**4.73%**	**2.20%**	**2.53%**

Source: Derived by Canada West Foundation from the Greater Saskatoon Chamber of Commerce and the Regina and District Chamber of Commerce, *Education Property Tax Changes to Create a Growth Agenda for Saskatchewan*, 2009.

APPENDIX I
EVALUATIVE CRITERIA

Introduction

This appendix provides an expanded discussion on the evaluative criteria against which any tax, its administration, application, and usage can be assessed and subsequently judged. The appendix also expands on a discussion of the broad themes that should guide efforts to build a more competitive tax regime.

Principles for Sound Tax Policy

1) Taxpayer Criteria

- *Equity:* Equity or "fairness" in taxation is undoubtedly one of the most important criteria when evaluating any tax. This is because so much is riding on taxpayers' perceptions of fairness. When it comes to taxation, there is widespread agreement—and rightly so—that taxes should treat everyone fairly. Not only is this criteria of fundamental importance in its own right, issues of equity have ramifications that ripple out and affect the performance of the tax on many other criteria such as transparency, accountability, economic neutrality, and public acceptance of the tax. For example, if a tax is seen as unfair, rates of voluntary compliance are more likely to rise leading to additional costs for government to enforce the tax. At the same time, equity is tricky because perceptions of fairness vary, and the matter itself is multi-faceted.

  A number of tax equity concepts must be brought into play. Broadly speaking, there are two basic principles of tax equity—the *benefits principle* and the *ability to pay principle.* The benefits principle asserts that those who benefit from the services provided by a tax should be the same ones responsible for paying the tax. Further, the amount of individual tax paid should approximate the individual benefits received. In opposition to this definition is the ability to pay principle, which ignores these considerations and asserts that a tax can be considered equitable if people are taxed according to their ability to pay the tax. In other words, those with higher income or wealth should pay more tax while those with lower income or wealth should pay less tax.

  While the benefits principle is straightforward, the ability to pay principle gives rise to several other concepts of tax equity. For example, the concept of *horizontal equity* addresses the concern that taxpayers in similar circumstances should pay similar amounts of tax. The concept of *vertical equity* speaks to the concern that those in differing circumstances should pay differing amounts of tax according to the degree to which their circumstances diverge. The concern of horizontal and vertical equity is that individuals are treated uniformly.

  When it comes to equity in taxation, a lot of the popular discourse spins around whether a tax is *regressive, proportionate,* or *progressive.* A regressive tax is one where the effective rate of tax (taxes paid relative to income) is higher for those of lower means. A proportional tax would have a similar effective rate of tax across the board. A progressive tax sees the effective tax rate rising along with levels of affluence.

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At the end of the tax day, however, the crucial thing to bear in mind is that many taxes depend on the "honour" system to function, and that in turn depends on the legitimacy of the tax in the minds of taxpayers. Taxes perceived as being inequitable or "unfair" run the risk of losing legitimacy and unleashing a whole other set of problems.

- *Visibility:* Visibility speaks to whether or not taxpayers can see the tax being imposed, and easily determine the total amount of tax they pay. High visibility is a positive feature because it allows taxpayers to relate the amount paid to what they earn, and also to understand their personal contribution to various public services. Hidden taxes are less attractive for taxpayers.

- *Transparency:* Discussions over transparency generally proceed down two tracks. First, transparency takes visibility one step further by throwing the basket of expenditures into the mix. In one sense, a transparent tax is one where taxpayers not only understand the amount of tax they pay, they also understand what they receive in return. Transparency links the taxes paid to services received. A second way to view transparency speaks to whether or not there is a good match between those who should be paying the tax—or are thought to be paying the tax—and those who actually end up paying the tax. For example, the prevailing wisdom on a tax might be that "Group A" is paying one-half of the tax while "Group B" and "Group C" is paying one-quarter of the tax each. But, because of how the tax is administered "Group A" is really only paying one-quarter of the tax while "Group B" and "Group C" pick up the rest. Such a tax is not transparent. Those who are thought to be paying their fair share are not in reality doing so. Any tax that has a strong and clear link between the amount of tax paid and services rendered, and where it is clear that those who should be paying are actually paying, can be considered a transparent tax. Transparency in taxation is a critical criteria.

- *Simplicity:* When it comes to taxation, simplicity is a huge virtue. Taxes that are simple, straightforward, and easy to understand are taxes that are much better for taxpayers. When taxpayers understand how a tax works, they are more likely to accept the tax. On the other hand, taxes that are confusing or difficult will certainly increase the natural suspicion of taxpayers. Simplicity in taxation is beneficial because it lowers compliance costs for business and collection costs for government. It increases both transparency and visibility for individual and corporate taxpayers. Simplicity also contributes to fairness, in that the tax is not easily subjected to different interpretations, or where those with the financial resources can seek out loopholes to avoid the tax.

- *Accountability:* Accountability in public decision-making is always strengthened when the government responsible for the taxing is the same government doing the spending. Accountability is also enhanced when the tax in play is simple, visible, and transparent. In the absence of these characteristics, taxpayers will find it hard to hold governments accountable for their tax and spend policies.

- *Predictability:* Taxes, as well as the larger tax system itself, should be marked by a high degree of certainty. For taxpayers, there is nothing worse than a system undergoing constant change and where future tax liabilities are unknown or arbitrary. The timing, manner, and amount of tax to be paid should also be clear. Predictability is a huge consideration when it comes to certain taxes such as the basket of corporate taxes. Businesses make investment decisions based not only on the current tax system, but their perceptions about how the tax system might change in the future. A tax future loaded with uncertainty can lower levels of capital investment and business activity.

- *Legitimacy:* Legitimacy speaks to the level of taxpayer acceptance with a tax and the basic purposes behind that tax. Legitimacy is essential to maintaining tax compliance and keeping interruptions to a minimum. Legitimacy is largely the hallmark of all the other criteria — especially taxpayer perceptions of equity. A breakdown in legitimacy leads to the classic tax revolt.

2) Economic Effects

- *Allocative efficiency:* Whenever government expenditures are funded through taxation, there is always the risk of a misallocation of resources. Only when the consumers of a good or service—whether public or private—are required to individually pay will the right amount of various goods and services be provided at the right price that people are willing to pay. Anything less implies a certain amount of inefficiency, waste, and a net loss to society. Of course, some taxes are worse on this score than others. How taxes are administered and structured also bear very heavily on this criteria. Good tax policy seeks to ensure that taxes are applied in such a way that any efficiency losses in the provision of public goods and services are kept to a minimum.

- *Neutrality and distortions:* No tax is entirely fair or completely neutral with respect to investment patterns, economic distortions, or decisions about location and business inputs. Every tax produces some deadweight loss and has the potential for creating undesirable effects across the broader economy. Again, much here depends on how various taxes are administered and applied. Some taxes can involve significant cross-subsidization, which leads to misallocation, overuse, and the wasting of resources. Equity in taxation is intimately linked with economic neutrality. Taxes that are equitable are more likely to be economically neutral as well.

3) General Governance

- *Autonomy and local control:* Taxes that are directly controlled by the taxing jurisdiction help facilitate autonomy and local and independent decision-making. Such taxes are superior in that they produce higher levels of accountability with the administration and management of the tax. Taxes with too much of their governance residing with another order of government are arguably less attractive. This, for example, was one of the reasons behind provinces moving from the "tax-on-tax" (TOT) personal income tax to the "tax-on-income" (TONI) personal income tax. When it came to the provincial income tax, TOT had too much of provincial personal income tax policy resting on decisions being made federally.

- *Tax capacity:* Multiple orders of government are often involved with levying similar taxes. An important consideration, then, concerns the state of the tax room. Is the tax room subject to a high degree of competition with significant pressure being placed on the tax base? Or is there adequate room to adjust the tax if necessary? Taxes with excess room are arguably the better taxes to employ, as it results in less pressure being placed on the tax base.

A: The Tax Level
B: The Tax Mix
C: Personal Income Tax
D: Corporate Taxation
E: Sales Taxes
F: Municipal Property Taxes
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- *Logical fit with expenditure purpose:* Taxes should have some link to the expenditures that are funded by the tax. In other words, there should be at least some logical connection between the tax being levied and the expenditure that it funds. Personal income taxes, for example, are a logical choice to fund government social programs that redistribute income. Property taxes are a good choice for funding services to property as those services increase the property's value—they are capitalized into property values. In short, taxes should always make at least some intuitive sense.

4) Administration

- *Ease of administration:* This criteria speaks to the relative degree of difficulty or effort needed to establish, impose, and maintain a tax over time. Taxes that are complex and difficult to administer will see substantial time, energy, and effort expended to ensure compliance and the collection of revenue.

- *Cost of administration:* Taxes that are complex or difficult to administer will also be more costly to administer. These costs certainly impact on government, but they can also affect individuals and business, who are forced to spend time and money in complying with the tax. Income taxes, for example, are quite costly for government, individuals, and business. Sales taxes may be costly for government and business as well, but less so for individuals. A key measure here is the cost of tax administration relative to the revenue produced. Taxes that have high costs relative to the revenue generated are not a good bargain. This is also true for taxes that carry high economic costs.

- *Revenue collection:* Taxes have both an "allocative" effect and a "revenue" effect. With respect to allocation, some taxes are imposed by governments to reallocate or lower the production and consumption of specific goods or services in the economy by using the tax to increase the price. Tobacco taxes, liquor taxes, gambling taxes, and other "sin" taxes are good examples. However, the collection of revenue is usually the more important goal. The tax collection rate concerns itself with whether government receives the actual amount of tax that has been levied. Taxes with good rates of collection are arguably the better tax.

- *Compliance:* Compliance is the degree to which taxpayers abide by the legal provisions of a tax and remit to government the amount of tax owed. Compliance also speaks to the degree of difficulty that individuals and business might have with respect to paying the taxes that are owed. Taxes with high rates of voluntary compliance and with low compliance costs are desirable.

- *Enforcement:* Unlike tax compliance, enforcement speaks to the ability of government to enforce the tax in the event of low levels of voluntary compliance or specific cases of individual noncompliance, avoidance, or even outright tax evasion. Again, much of this relates to the costs of tax administration, but can also involve uncovering noncompliance and investigating the same.

5) The Tax Base

- *Identification:* A key factor behind any tax concerns the nature of the tax base. While there is much to consider, the starting point simply concerns the ease with which the tax base can be identified, and whether taxpayers themselves can see and understand what it is that is being taxed.

- *Valuation:* If the tax base is easily identified, can it be easily measured or valued? Before any tax can function, there must be some way to effectively measure the value of the tax base against which a rate can be applied, and to measure the value with fairness, ease, and at relatively low cost.

- *Size of the Tax Base:* The size of the tax base is an important criteria. A narrow tax base links to only a small part of the economy while a broad tax base touches on virtually everyone or everything. A relatively broad tax base is desirable because it always advances a number of other positive criteria. For example, only a broad tax base can generate sufficient revenue with relatively low rates of tax. Equity, fairness, and economic neutrality is also improved when the base of a tax is broad—there are few if any exemptions. A broad tax base shores up acceptability and legitimacy, eases administration, results in more stable revenue flows, and works against undesirable economic dislocations or perverse effects. On the other hand, a narrow base can generate substantial revenue only with high or even punishing rates of tax, and as the tax base narrows, equity can begin to suffer as fewer and fewer people end up paying more and more tax. This can result in taxpayers working to avoid the tax or even "voting with their feet" by leaving the taxing jurisdiction. The end result is a deterioration and further narrowing of the tax base that in turn requires even higher rates of tax to generate adequate revenue. The result is a vicious cycle from which escape is neither clear nor easy.

- *Stability of the Tax Base:* Another important consideration in evaluating any tax is the stability of the tax base. A stable tax base is one whose value does not quickly spike up or suddenly crash in the face of unexpected economic shocks or the continual ups and downs of the larger business cycle. Stability in the tax base is a desirable quality because it produces continuous and reliable revenue streams for government, and predictable and stable tax payments for taxpayers.

- *Mobility of the Tax Base:* Tax bases can be relatively mobile or immobile. Immobile tax bases are those that cannot easily move out of the taxing jurisdiction to avoid paying tax, while mobile tax bases can more easily move to a non-taxing jurisdiction causing "tax leakage." Property taxes, which targets land and improvements on them, is a relatively immobile tax base—land is immovable and improvements almost equally so in most circumstances. Capital or business investment is a much more highly mobile tax base, and is very sensitive to taxation because it can move seamlessly between provinces and among nations. Over-taxing any tax base is never good tax policy, but doing so against a highly mobile base is very counterproductive and can lead to significant tax leakage.

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6) The Revenue Effect

- *Adequacy:* Different forms of taxation produce different types of revenue effects. A key consideration here concerns revenue adequacy. In other words, can the tax generate enough revenue at reasonable and relatively comparable rates of taxation? Do the revenues produced meet current expenditure needs? What about future needs? Or, does raising the needed revenue require a high rate of tax and significant pressure on the tax base? Taxes that produce adequate revenues with reasonable rates are preferred.

- *Reliability:* This criteria is closely related to adequacy, but it concerns the stability and predictability of the revenue produced by a tax over time. Does the tax generate steady and reasonably predictable flows of revenue, or does the tax run the risk of producing highly variable flows due to changing economic circumstances? What is the risk of severe fiscal interruption? The reliability of the revenue stream is largely a function of the stability of the tax base. Corporate taxes, for example, are among the most notoriously unpredictable because corporate net income can be highly variable from year to year. On the other hand, fuel taxes and property taxes tend to serve as stable tax revenue sources.

- *Flexibility:* Can the tax be easily adjusted in response to changing economic circumstances or to accommodate a changing fiscal situation? Or, is the tax difficult to adjust, whether that difficulty comes from administrative concerns or taxpayer resistance? A certain measure of flexibility is certainly a desirable characteristic.

- *Elasticity:* The concept of "elasticity" speaks to how well a tax responds to developments in the larger economy. Taxes that produce revenues that grow alongside the economy are relatively elastic, while taxes that do not are relatively inelastic. Sales taxes, for example, are attached to the consumption of goods and services, and are levied on the final purchase price. Every year, sales tax revenues grow right alongside consumer expenditure across the economy, capturing both increase in sales volume and inflation which are reflected in the price. Fuel taxes, however, are often set at a certain dollar amount per litre of tax sold, and are insensitive to price fluctuations. The only growth in fuel tax revenue comes from increased volumes sold, and are relatively inelastic.

Principles for Improving Tax Competitiveness

The best possible tax—and the best possible administration of that tax—aspires to meet all the beneficial aspects of each criteria above. The best tax, then, is equitable, fair, simple, transparent, visible, and predictable. The tax rests on a stable base, yields predictable flows of revenue for government, and also responds well to economic and population growth. The best possible tax is easy and cost effective to establish and administer, results in high rates of voluntary compliance, and is predictable rather than arbitrary. Public acceptance of the tax is also high, and the tax itself is economically neutral—it does not produce excessive distortions across the economy. There is, however, a problem—no one tax can ever deliver on each of these criteria. For example, a tax that responds well to economic growth and has revenues that track alongside is also subject to at least some disruption if economic growth stalls. Likewise, achieving an acceptable measure of equity in the personal income tax system for example, may require the adding of complexity.

In applying these criteria, then, it is important to realize two things. First, because no single tax can deliver on the beneficial criteria, there are trade-offs that have to be managed. Second, in making these trade-offs, some criteria will have to take precedence over others. Arguably, criteria such as equity and fairness, simplicity, transparency, accountability, and economic neutrality top the list. When identifying a package of potential tax reforms for Saskatchewan, these criteria were given the most weight. In addition to these important considerations, we also closed-in on a number of broader themes and considerations.

1) Focus on Competitiveness and Growth-Enhancing Change

Whenever governments requisition funds through taxation, the economy and its potential for growth is impacted. The goal of tax reform is to limit those impacts in an effort to optimize economic potential. Some tax policy choices—a single rate personal income tax is a good example—can offer significant promise in this direction. But this must also balance against the community's perceptions of equity and fairness. The challenge for government is to identify growth-enhancing tax changes that can be implemented without doing violence to other deeply-held values that taxpayers share. In pursuing the goal of growth-enhancing tax change, three things should be kept in mind.

First, governments should focus on taxing *smarter.* When it comes to economic growth, all taxes can be considered "bad" but some are just "more bad" than others. Value-added sales taxes, for example, are less damaging economically than income taxes, such as the taxation of corporate net income. Likewise, easing the taxation of savings and investment can provide economic benefits. Pursuing this goal requires going well beyond the simplistic mantra of cutting taxes. The goal is to tax smarter. This requires careful consideration of the types of taxes that are used, and most important, how those taxes are used.

Second, taxing *smarter* today increases the capacity to tax *lower* in the future. The consensus is that if governments can tax smarter today, then the economy will see faster rates of growth tomorrow. Small increases in GDP today translate into much larger increases down the road—much like compounding interest in a savings account. As such, taxing smarter today increases the capacity to tax less in the future due to the increased size of the tax base. Increased fiscal capacity is also created to boost investments in health, education, and critical infrastructure without resorting to tax increases.

Third, taxing smarter and taxing less are not the ultimate goals. While the economic rationale behind tax reform spins tightly around the goals of increasing competitiveness, enhancing productivity, and increasing the rate of economic growth, these are simply first order objectives. The second order objectives are more important and include increasing living standards and quality of life, especially for those with lower incomes. Tax reform also speaks to ensuring that the economy grows sufficiently to continue funding important social objectives and necessary public goods and services.

In many ways, the traditional debate over taxation has become far too simplified and too polarized. The option of reducing or reforming taxes is always pitted against the option of more government social spending. But these are not mutually exclusive objectives. Economic and social policy goals can and should be complementary (Lynch 2006). Pursuing income growth in wealthy economies has only a small net effect on those at the top of the income scale, but it

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can have a huge impact on those at the bottom of the income scale (Fortin 2006). In the end, the pursuit of productivity gains and economic growth ultimately aligns with the broader social policy objective of increasing the standard of living for those with lower incomes and a better, more securely funded, system of social supports.

There are many reasons to consider a good dose of tax reform, including increased investment and capital formation, heightened productivity, stronger rates of economic growth and higher real incomes—the heart of long-run and sustainable improvement in living standards. In turn, these have effects that ripple out everywhere, from mitigating poverty, improving living standards, and producing higher quality of life, to shoring up the social safety net, and improving public services. The objective is not economic growth for the sake of growth, but securing the well-being of the citizens of Saskatchewan in a sustainable manner.

2) Stay Fiscally Responsible and Sustainable

Efforts at tax reform and reduction should not drive governments into deficit. Further, changes should be sustainable over the long-term. It does no one any good, for example, to have taxes reduced in one year, only to ramp up again next year. Tax regimes that are continually changing produce considerable risk—particularly for capital investment. When making investments and calculating the return needed on those investments, business looks not only to the prevailing tax regime but also how that regime might look in the future. An uncertain future raises the return needed to compensate for the increased risk, and this can prevent valuable investments from taking place. Budget deficits do much the same—they present the chance of higher taxation in the future as the books are brought back into balance.

3) Focus on the Broad Tax Environment

When it comes to tax policy, there are two philosophical approaches to reform. The first seeks to create a positive climate for all types of economic activity and business investment—a broadly attractive tax environment. The second approach targets tax policy to attract specific investment and activities by building tax preferences into the system. While governments often pursue elements of both simultaneously, the first approach arguably yields more competitive advantage across the long-term. The goal is to create an efficient or neutral tax system that is equitable and fair with the same rules applying to all, and thereby better positioning the entire economy. Targeted tax initiatives and "boutique" style preferences work against this thrust. To be fair, some preferences are clearly designed to achieve laudable objectives. Personal income tax credits for families with children and seniors are but one example, and special investment tax credits for certain business sectors are another. Increasingly, tax economists and public finance commentators are arguing that such objectives should not be secured through tax policy, but through direct government expenditure. This avoids tax policy running afoul of the many criteria above, whether that is tax-induced distortions or building inequities and complexity into the system. Direct public expenditure leaves the tax base alone, and is itself both more visible and transparent.

4) Broaden the Tax Base

A lot of the above finds expression in a very practical and simple direction. When considering tax reform, the drive should centre around keeping all tax bases as broad and as even as possible. This means limiting preferences, exemptions, credits, deductions, special exclusions, and all other mechanisms that work to narrow the tax base or provide special treatment for specific activities, individuals, or businesses. Ensuring a broad and even tax base is essential for equity, and also relates closely to the next objective—low tax rates.

5) Lower the Tax Rate

If tax bases are broad, then the rate of tax can be kept to a minimum. If taxes can be broadened, then the rate can also be lowered while the revenue generated remains intact. All of this lowers the economic impact of the tax. The distortionary effects of a tax and its negative effects on the economy are always kept to a minimum whenever tax bases are broad and rates are low. The competitive formula is simple—*wide bases and low rates.*

6) Keep Things Simple

Efforts at tax reform should focus on limiting regulations in the various tax codes and keeping all taxes as clean, simple, and straightforward as possible. If the average person cannot easily grasp the essential features of a tax, then that tax is too complex. In pursuing tax reforms, the changes sought should be simple as well. This makes it easier to mobilize popular support for the change, because taxpayers are more likely to understand it.

7) Improve the Tax Mix

Many of the evaluative criteria for good tax policy involve a number of trade-offs that cannot be managed within a single tax source, but must be reflected across the entire tax system. Thus, governments typically use a "mix" of taxes. When examining the tax mix and seeking improvements, it helps to keep two things in mind.

First, *diversity* within the system is a necessary objective. Only when numerous tax sources are in play can a tax system capture and reflect all of the beneficial aspects within the various criteria. Not only does diversity allow all of the positive and beneficial aspects of the various criteria to be put into play, but diversity assists with managing the interaction of the criteria. Some criteria are closely related—taxes that score well on one will by necessity score well on others. But many taxes that score well on one criteria will by necessity score poorly on another. In the end, some criteria push together in one direction while others pull away in opposite directions. Diversity allows the inherent disadvantages of one tax to be offset by the inherent advantages of other taxes.

Diversity also helps to manage some difficult questions. Some criteria, for example, are obviously more important than others. But determining which should take precedence is not always clear cut. Can taxpayer concerns over simplicity always be said to trump the important economic consideration of tax neutrality? While both are equally desirable, it may not be always possible to structure and administer a tax to achieve both simultaneously. The issue of equity in taxation can be particularly thorny. Diversity across the entire tax system helps mitigate these difficult questions by turning attention to how the system works as a whole. As a general rule, then, tax systems should not rely too heavily on one or two types of taxes. Tax systems that are singularly tilted or dependent in one direction or another will not deliver on all the beneficial criteria. The objective, then, is to avoid an over-reliance on one tax or another, ensure the broader tax picture is balanced, and that the larger tax system itself enjoys a reasonable measure of support across the community.

Second, taking the point a little further, competitive tax systems are also *balanced* tax systems that have a beneficial "mix" of the diverse taxes employed. In striving for balance, policy makers should pay careful attention to a number of factors. The pool of economic research, policy knowledge, and technical expertise on taxation and its impact upon the larger economy is expanding. An entire body of new theoretical and empirical research has emerged across the globe to challenge traditional thinking on tax issues. Because informed public policy is always better public policy, decision-makers should not be quick to dismiss new insights on tax issues. Today, the global trend in taxation is marked by efforts to reduce reliance on personal and corporate income taxes and increase the emphasis on consumption or sales taxes, particularly broad-based value-added (VAT) sales taxes, as well as user pay selective sales taxes (Mintz 2007b). Sales taxes can raise revenue more efficiently and with less cost to the economy than many other taxes. Broad-based sales taxes also do less to discourage work effort and they exempt savings and investment—the "fuel" of enhanced productivity and economic growth. Thus, the larger strategy is to keep personal and corporate income taxes as low as possible and rely more on value-added (VAT) sales taxes to make up the difference. To be sure, there are concerns over regressivity and the impact on those with low incomes, but many of these concerns can be addressed through government expenditures, sales tax offsets such as credits or rebates, or offsets provided through the personal income tax system.

Third, the tax system should exhibit a measure of balance when considering the taxes and systems of competing jurisdictions. While stepping into line with what Saskatchewan's competitors are doing without thoughtful consideration is not the way forward, neither is ignoring what the competition is doing. Saskatchewan's tax system should exhibit at least a measure of balance given the tax systems of neighbouring provinces. At the very least, it should not be wildly out of sync.

Finally, emerging economic realities should always factor into the balance. Competitive tax systems attempt to accommodate, reflect, and mesh with current and emerging economic realities, both at home and abroad. Over the past decades and even the last few years, Saskatchewan's economy has changed, and it will continue to evolve in the future. Thought must be given to how tax policy aligns with new provincial economic realities and a range of global challenges, whether that be the increasing mobility of global investment capital, new technological advances, or the emergence of the new knowledge economy.

8) Pursue Complimentary and Coordinated Change

Many tax systems—or at least some of the incremental tinkering that continually seems to occur within them—evidence certain contradictions. For example, successive governments at both the federal and provincial levels have worked hard over the last ten to fifteen years to bring down the statutory rate of corporate income tax. At the same time, a number of new tax preferences, exemptions, and credits have been devised within various corporate income tax systems, and different sectors are also able to use different capital cost allowance schedules. These two goals work at cross purposes. The new preferences and credits serve to narrow the corporate income tax base, which in turn works against lowering the rate of tax. To be sure, no tax system can ever be entirely clear of at least some contradictions, but the goal of competitive tax policy should always be to build a coordinated and integrated system that has taxes working across the larger system in a complimentary fashion. Going forward, tax reform should be complimentary—getting taxes working in the same growth-enhancing directions and also building on incremental improvements that may have been made in the past.

9) Go Easy on Savings and Investment

Tax policy should pursue all possible avenues to lower the burden on savings and investment, especially corporate investment. This will help attract and retain higher levels of both foreign and domestic direct investment. Proponents of this direction for change argue that it offers potential for the biggest competitive leaps forward.

When it comes to tax competitiveness, the level of taxation is certainly one issue. But, it is not the only issue. Tax competitiveness and tax reform is not merely a question of blindly cutting taxes. Rather, it is a question of reforming taxes, improving their administration, striving for a reasonable tax mix, efficiently applying taxes, and maybe even swapping one tax up for another. If the overall level of taxation needs to be reduced to stay competitive, then the right taxes have to be cut, and they need to be cut the right way. But significant competitive gains can also be gained by broadening tax bases, lowering rates, simplifying the tax regime, improving the tax mix, and getting all taxes working in the same direction as opposed to working at various cross-purposes.

APPENDIX J
SURVEY RESULTS

Introduction

This appendix includes a copy of the survey schedule and the responses that were received. The first section of the appendix reports on the results from the public survey, and also includes the answers from *WESSR* respondents. The second section of the appendix reports on the results received from the *WEESR* respondents to the more detailed survey. The third section presents a break-down of the survey demographics. The fourth section concludes the appendix with a brief discussion.

PART 1: The Public Survey (All percentages based on those who answered the question)

Section 1: The Importance of Taxes

1) How important is the tax system to Saskatchewan's competitive position within western Canada, Canada, and the world?

70.6%	Very important
22.5%	Somewhat important
2.4%	Neither important nor unimportant
2.4%	Somewhat unimportant
2.0%	Quite unimportant

2) How important is the tax system for recruiting and retaining people, investment, and businesses in Saskatchewan?

67.0%	Very important
25.8%	Somewhat important
3.6%	Neither important nor unimportant
2.4%	Somewhat unimportant
1.3%	Quite unimportant

3) As a policy priority, how important is it for the Saskatchewan government to focus on ensuring a competitive tax system?

72.3%	Very important
21.0%	Somewhat important
2.7%	Neither important nor unimportant
2.8%	Somewhat unimportant
1.3%	Quite unimportant

4) From the following list, which three are the most important for recruiting and retaining people, investment, and businesses in Saskatchewan? (Select up to three options.)

13.4%	Affordable and abundant educational opportunities
44.3%	A wide variety of career opportunities and choices
10.1%	A broad range of entertainment, recreation, and cultural activities
41.9%	Relatively low cost of living, including housing
33.4%	Available labour, including a young and highly skilled workforce
55.7%	A competitive provincial and municipal tax system
31.6%	Infrastructure (e.g., transportation, utilities, communications)
37.2%	Public services (e.g., health care, education, social services)
7.5%	Few interprovincial trade barriers
2.9%	An attractive climate
15.8%	Little government "red tape"
7.0%	Price stability and low inflation
7.8%	Geographic considerations (e.g., close to inputs, resources, research centres, markets)

Section 2: Saskatchewan's Tax System

5) In the last ten years, the provincial tax system in Saskatchewan has:

23.3%	Improved a lot
48.4%	Improved a bit
18.9%	Stayed about the same
5.7%	Worsened a bit
3.7%	Worsened a lot

6) Which of the following statements best describes your view on the current tax system in Saskatchewan:

32.1%	Major change is required—some taxes are much too high and others are much too low.
63.0%	Minor adjustment is required—some taxes are a bit high and others are a bit low.
4.9%	No change is required — the right balance of taxes is being used.

7) A tax system can be improved by changing the taxes that are used, even if the total amount of tax revenue collected stays the same.

41.1%	Strongly Agree
42.5%	Somewhat Agree
8.6%	Neither Agree nor Disagree
5.2%	Somewhat Disagree
2.6%	Strongly Disagree

8) Different types of taxes have different economic impacts. Thus, a government can impose higher taxes as a percentage of GDP than its neighbours, but the economy might be no worse off depending on which taxes are used.

16.4%	Strongly Agree
44.7%	Somewhat Agree
17.6%	Neither Agree nor Disagree
13.0%	Somewhat Disagree
8.2%	Strongly Disagree

9) Of all the taxes that are used, consumption or sales taxes are the best because they have the least impact on the economy and the economic well-being of Saskatchewan residents.

14.3%	Strongly Agree
33.9%	Somewhat Agree
13.7%	Neither Agree nor Disagree
23.5%	Somewhat Disagree
14.5%	Strongly Disagree

10) Of all the taxes that are used, personal and corporate income taxes are the best because they have the least impact on the economy and the economic well-being of Saskatchewan residents.

4.4%	Strongly Agree
18.5%	Somewhat Agree
14.4%	Neither Agree nor Disagree
34.1%	Somewhat Disagree
28.7%	Strongly Disagree

Section 3: Personal Taxes

11) Which one of the following personal taxes do you think is the best form of taxation?

44.6%	Personal Income Tax
48.1%	Provincial Retail Sales Tax
5.1%	Municipal Property Tax (Residential)
2.2%	Education Property Tax (Residential)

12) Which one of the following personal taxes do you think is the worst form of taxation?

24.3%	Personal Income Tax
15.0%	Provincial Retail Sales Tax
13.4%	Municipal Property Tax (Residential)
47.3%	Education Property Tax (Residential)

Section 4: Business and Corporate Taxes

13) Which one of the following business or corporate taxes do you think is the best form of taxation?

57.1%	Corporate Income Tax
35.7%	Resource Royalties
1.8%	Insurance Premiums Tax
4.2%	Municipal Property Tax (Commercial)
1.2%	Education Property Tax (Commercial)

14) Which one of the following business or corporate taxes do you think is the worst form of taxation?

13.1%	Corporate Income Tax
5.3%	Resource Royalties
21.3%	Insurance Premiums Tax
14.8%	Municipal Property Tax (Commercial)
45.5%	Education Property Tax (Commercial)

Section 5: Consumption or Sales Taxes

15) Which one of the following consumption or sales taxes do you think is the best form of taxation?

38.4%	Provincial Retail Sales Tax
6.3%	Fuel Tax
14.9%	Liquor Consumption Tax
38.8%	Tobacco Tax
1.6%	Pari-Mutuel Tax

16) Which one of the following consumption sales taxes do you think is the worst form of taxation?

36.6%	Provincial Retail Sales Tax
44.2%	Fuel Tax
7.8%	Liquor Consumption Tax
2.9%	Tobacco Tax
8.4%	Pari-Mutuel Tax

Section 6: Tax Reform

17) The personal income tax, the corporate income tax, and the provincial retail sales tax represent the bulk of provincial tax revenue. Like all provinces, Saskatchewan has to find a balance between these three taxes. If you had to select from one of the following options, which would you choose?

6.6%	Increase personal income tax relative to corporate income tax and the provincial retail sales tax
31.0%	Increase corporate income tax relative to personal income tax and the provincial retail sales tax
30.6%	Increase the provincial retail sales tax relative to the personal income tax and the corporate income tax
31.8%	Make no changes because there is already the right balance between the three taxes

18) If you could choose to reduce a tax, which tax would you choose? (Select only one.)

- 40.8% Personal Income Tax
- 12.1% Provincial Retail Sales Tax
- 9.2% Corporate Income Tax
- 0.8% Resource Royalties
- 8.2% Municipal Property Tax
- 25.5% Education Property Tax
- 3.4% Other taxes:
  - 0.6% Liquor taxes
  - 0.4% Fuel taxes
  - 0.1% Tobacco taxes
  - 2.2% Various modifications to the personal income tax:
    - 0.6% Introduce a flat tax
    - 0.4% Increase the basic exemption
    - 0.3% Lower capital gains
    - 0.1% Allow for income splitting
    - 0.1% No taxation of retirement income
    - 0.1% No taxation of commission income
    - 0.6% Other

19) What is the main reason you chose this option? (Choose any that apply.)

- 5.0% It would make the tax system more balanced
- 23.1% It would make the tax system more fair
- 3.7% It would make the tax system more transparent
- 2.6% It would make the tax system easier to understand and comply with
- 28.2% It would strengthen the Saskatchewan economy
- 14.5% Those who pay this tax should be paying less
- 14.3% It would help my personal financial situation the most
- 8.7% Other reasons:
  - 1.4% Makes Saskatchewan more competitive with other provinces
  - 1.3% Increases investment and strengthens the economy
  - 1.3% Inappropriate way to fund education
  - 0.9% Reduces a regressive tax and makes the system more fair
  - 0.6% Would benefit the most people and increase disposable incomes
  - 0.6% No accountability with the tax
  - 0.3% Would reduce tax leakage
  - 2.4% Other

20) If a tax had to be increased, which tax would you choose? (Select only one.)

- 6.2% Personal Income Tax
- 31.6% Provincial Retail Sales Tax
- 24.1% Corporate Income Tax
- 24.2% Resource Royalties
- 3.3% Municipal Property Tax
- 1.3% Education Property Tax
- 9.3% Other taxes:
  - 2.8% Sin taxes
  - 2.0% No increase in any taxes
  - 0.7% Introduce an HST
  - 0.4% Fuel taxes
  - 0.3% Consumption taxes
  - 0.3% Consumption taxes on luxury items
  - 0.3% User fees
  - 0.3% Flat tax on personal incomes
  - 0.3% New environmental consumption taxes
  - 2.0% Other

21) What is the main reason you chose this option? (Choose any that apply.)

10.1%	It would make the tax system more balanced
23.3%	It would make the tax system more fair
7.7%	It would make the tax system more transparent
5.1%	It would make the tax system easier to understand and comply with
16.6%	It would have the least impact on the Saskatchewan economy
23.0%	Those who pay this tax should be paying more
10.3%	It would have the least impact on my personal financial situation
18.6%	It would produce revenues better able to fund services I think are important
7.0%	Other reasons:

- 1.3% It is a tax that people can avoid
- 0.9% It is better for the environment
- 0.9% It is least damaging to the provincial economy
- 0.3% It makes Saskatchewan more competitive with other provinces
- 3.7% Other

Section 7: Tax Levels

22) When the total tax load in Saskatchewan is compared to that of other provinces, do you feel the tax load in Saskatchewan is:

13.3%	Much higher
49.7%	A little higher
23.9%	About the same
12.5%	A little lower
0.6%	Much lower

23) When considering the public services you get for the taxes you pay, the tax load in Saskatchewan is:

21.6%	Much too high
42.3%	A little too high
27.1%	About right
8.1%	A little too low
0.9%	Much too low

24) In the last ten years, provincial tax levels in Saskatchewan have:

8.0%	Increased a lot
19.2%	Increased a little
18.2%	Stayed about the same
45.7%	Decreased a little
8.9%	Decreased a lot

25) There is a trade-off between the level of taxes and the level of public services. If you had to select from one of the following options, which would you choose?

40.7%	Lower taxes even if that meant a reduction in public services
39.7%	The current balance between taxes and public services
19.7%	Enhanced public services even if that meant higher taxes

Canada West FOUNDATION

26) Themes emerging from the results of the written submissions. (Percentages reflect the number of respondents mentioning an item. Only items that were mentioned by five or more respondents were recorded. A total of 194 submissions were received. Of these, 164 submissions included items mentioned five or more times.)

22.7%	Mentioned the need for more efficient spending or lower spending
17.0%	Registered support for an HST
4.6%	Registered opposition to an HST
6.7%	Registered support for increased use of consumption taxes
3.1%	Registered opposition for increased use of consumption taxes
3.1%	Mentioned that corporate taxes should be increased
3.1%	Mentioned that corporate taxes should be decreased
4.6%	Said that all taxes should be decreased
2.6%	Said that government should not focus too much on lowering taxes
4.6%	Mentioned that education property taxes should be lowered and replaced with funding from other taxes
6.2%	Registered support for flat rate personal income tax
2.6%	Said that personal income taxes should be lowered
3.6%	Said that those who currently pay little tax should be taxed more
2.6%	Said that more use should be made of user fees and user pay systems

PART 2: The WEESR Survey (All percentages based on those who answered the question)

Section 1:

1) The New West Partnership recently signed by the Government of Saskatchewan makes it imperative that Saskatchewan's tax system be competitive with that of Alberta and British Columbia.

35.0%	Strongly Agree
27.2%	Somewhat Agree
17.5%	Neither Agree nor Disagree
8.7%	Somewhat Disagree
11.7%	Strongly Disagree

2) Saskatchewan's tax system has become more competitive over the past decade, but there is still more that could be done.

45.2%	Strongly Agree
31.7%	Somewhat Agree
13.5%	Neither Agree nor Disagree
7.7%	Somewhat Disagree
1.9%	Strongly Disagree

3) Saskatchewan's tax system is very competitive already, and no further changes are required.

1.9%	Strongly Agree
14.4%	Somewhat Agree
9.6%	Neither Agree nor Disagree
43.3%	Somewhat Disagree
30.8%	Strongly Disagree

4) The Government of Saskatchewan should be more concerned about the overall "tax mix" and less concerned about the total amount of taxes collected.

20.2%	Strongly Agree
38.5%	Somewhat Agree
18.3%	Neither Agree nor Disagree
17.3%	Somewhat Disagree
5.8%	Strongly Disagree

Section 2: Personal Income Tax

5) The structure and rate of personal income tax are important to attract and retain employees.

38.2%	Strongly Agree
39.2%	Somewhat Agree
7.8%	Neither Agree nor Disagree
12.7%	Somewhat Disagree
2.0%	Strongly Disagree

6) All types of income earned by an individual, after appropriate exemptions and deductions, should be subject to the same rate of tax.

31.4%	Strongly Agree
27.5%	Somewhat Agree
4.9%	Neither Agree nor Disagree
18.6%	Somewhat Disagree
17.6%	Strongly Disagree

7) All individuals, regardless of income, should be subject to a single rate of income tax.

22.3%	Strongly Agree
19.4%	Somewhat Agree
2.9%	Neither Agree nor Disagree
19.4%	Somewhat Disagree
35.9%	Strongly Disagree

8) The fairest personal income tax is one that imposes higher rates of tax as income increases.

35.0%	Strongly Agree
22.3%	Somewhat Agree
4.9%	Neither Agree nor Disagree
15.5%	Somewhat Disagree
22.3%	Strongly Disagree

9) When designing a personal income tax system, government should take into account the impact on labour supply at all income levels.

30.4%	Strongly Agree
38.2%	Somewhat Agree
21.6%	Neither Agree nor Disagree
4.9%	Somewhat Disagree
4.9%	Strongly Disagree

10) If the Saskatchewan personal income tax system is to be competitive in Western Canada, it will not be fair.

4.0%	Strongly Agree
9.9%	Somewhat Agree
20.8%	Neither Agree nor Disagree
29.7%	Somewhat Disagree
35.6%	Strongly Disagree

11) If the personal income tax system is to be fair and transparent, there should not be special credits for certain activities such as recreation or investment.

13.7%	Strongly Agree
29.4%	Somewhat Agree
9.8%	Neither Agree nor Disagree
30.4%	Somewhat Disagree
16.7%	Strongly Disagree

12) The tax collection agreement, as it applies to personal income taxes imposed in Saskatchewan, is too restrictive. Saskatchewan should collect and administer its own personal income tax.

7.8%	Strongly Agree
9.8%	Somewhat Agree
22.5%	Neither Agree nor Disagree
26.5%	Somewhat Disagree
33.3%	Strongly Disagree

Section 3: Consumption or Sales Taxes

13) If a jurisdiction imposed a retail sales tax and was next to a jurisdiction with no retail sales tax, it is likely that consumers would avoid that tax on big ticket items by shopping in the tax-free jurisdiction.

44.1%	Strongly Agree
43.1%	Somewhat Agree
5.9%	Neither Agree nor Disagree
6.9%	Somewhat Disagree
0.0%	Strongly Disagree

14) The administration of the provincial retail sales tax is open and transparent.

12.7%	Strongly Agree
25.5%	Somewhat Agree
20.6%	Neither Agree nor Disagree
27.5%	Somewhat Disagree
13.7%	Strongly Disagree

15) The provincial government should do all it can to reduce the impact of the provincial retail sales tax on business inputs.

41.0%	Strongly Agree
29.0%	Somewhat Agree
17.0%	Neither Agree nor Disagree
6.0%	Somewhat Disagree
7.0%	Strongly Disagree

16) What do you think should happen with fuel taxes given the relationship of fuel consumption to climate change? Should they be:

14.1%	Increased substantially
22.2%	Increased slightly
40.4%	Left as they are
15.2%	Decreased slightly
8.1%	Decreased substantially

17) What do you think about the current taxes on tobacco and liquor? Are they:

1.0%	Much too high
15.8%	Somewhat too high
40.6%	At the right level
29.7%	Somewhat too low
12.9%	Much too low

Section 4: Corporate Income Tax

18) Higher corporate income tax rates will encourage businesses and corporations to report their taxable income in provinces or jurisdictions with lower corporate income tax rates.

41.2%	Strongly Agree
33.0%	Somewhat Agree
12.4%	Neither Agree nor Disagree
8.2%	Somewhat Disagree
5.2%	Strongly Disagree

19) Income earned by a corporation should be subject to the same tax rates regardless of the source of that income or the type of corporation.

25.0%	Strongly Agree
30.2%	Somewhat Agree
10.4%	Neither Agree nor Disagree
22.9%	Somewhat Disagree
11.5%	Strongly Disagree

20) The current tax system, as it applies to small business corporations, enhances economic activity and should be retained.

16.7%	Strongly Agree
41.7%	Somewhat Agree
18.8%	Neither Agree nor Disagree
17.7%	Somewhat Disagree
5.2%	Strongly Disagree

21) The current tax system, as it applies to manufacturing and processing, enhances economic activity and should be retained.

16.8%	Strongly Agree
22.1%	Somewhat Agree
40.0%	Neither Agree nor Disagree
16.8%	Somewhat Disagree
4.2%	Strongly Disagree

22) The tax collection agreement, as it applies to corporate income taxes imposed in Saskatchewan, is too restrictive. Saskatchewan should collect and administer its own corporate income tax.

4.1%	Strongly Agree
13.4%	Somewhat Agree
22.7%	Neither Agree nor Disagree
32.0%	Somewhat Disagree
27.8%	Strongly Disagree

Section 5: Property Taxes

23) Residential and non-residential property should be subject to the same effective property tax rate for both the education and municipal government components.

16.7%	Strongly Agree
24.0%	Somewhat Agree
12.5%	Neither Agree nor Disagree
25.0%	Somewhat Disagree
21.9%	Strongly Disagree

24) The best tax system is one where there is no property tax—either for education or general government—and the required expenditures are funded by other provincial revenue sources.

10.4%	Strongly Agree
16.7%	Somewhat Agree
6.3%	Neither Agree nor Disagree
40.6%	Somewhat Disagree
26.0%	Strongly Disagree

25) The best tax system is one where there is no property tax imposed for educational purposes — education expenditures are funded by other provincial revenue sources.

32.3%	Strongly Agree
31.3%	Somewhat Agree
8.3%	Neither Agree nor Disagree
15.6%	Somewhat Disagree
12.5%	Strongly Disagree

26) The assessment cycle of both residential and non-residential property should be shortened so that taxes are imposed on a more current estimate of market value.

17.7%	Strongly Agree
31.3%	Somewhat Agree
25.0%	Neither Agree nor Disagree
18.8%	Somewhat Disagree
7.3%	Strongly Disagree

27) Property taxes on non-residential property are important in making business location decisions.

29.2%	Strongly Agree
52.1%	Somewhat Agree
10.4%	Neither Agree nor Disagree
7.3%	Somewhat Disagree
1.0%	Strongly Disagree

28) Certain types of property, such as that owned by religious or charitable organizations, should be exempt from paying property tax.

14.4%	Strongly Agree
19.6%	Somewhat Agree
18.6%	Neither Agree nor Disagree
32.0%	Somewhat Disagree
15.5%	Strongly Disagree

29) Property taxes—both for education and municipal purpose—are transparent and easy to understand.

2.1%	Strongly Agree
16.5%	Somewhat Agree
7.2%	Neither Agree nor Disagree
44.3%	Somewhat Disagree
29.9%	Strongly Disagree

<u>Section 6: Resource Royalties</u>

30) The structure and rate of royalties related to energy resources are important in determining the amount of drilling and mining activity in the province.

49.5%	Strongly Agree
33.7%	Somewhat Agree
10.5%	Neither Agree nor Disagree
6.3%	Somewhat Disagree
0.0%	Strongly Disagree

31) It is important that Saskatchewan use Alberta as a benchmark in determining Saskatchewan's royalty rate structure.

14.4%	Strongly Agree
35.1%	Somewhat Agree
10.3%	Neither Agree nor Disagree
19.6%	Somewhat Disagree
20.6%	Strongly Disagree

32) The energy royalty structure in Saskatchewan should take into account the environmental impact of the particular resource.

28.4%	Strongly Agree
48.4%	Somewhat Agree
8.4%	Neither Agree nor Disagree
8.4%	Somewhat Disagree
6.3%	Strongly Disagree

33) The current royalty system gives the people of Saskatchewan a fair share of the province's energy resources.

10.4%	Strongly Agree
31.3%	Somewhat Agree
27.1%	Neither Agree nor Disagree
19.8%	Somewhat Disagree
11.5%	Strongly Disagree

34) The royalty system, as it applies to energy resources, is transparent and easy to understand.

1.0%	Strongly Agree
5.2%	Somewhat Agree
34.4%	Neither Agree nor Disagree
34.4%	Somewhat Disagree
25.0%	Strongly Disagree

<u>Section 7: Research & Innovation</u>

35) Provincial governments have a role in encouraging research and innovation.

41.7%	Strongly Agree
46.9%	Somewhat Agree
5.2%	Neither Agree nor Disagree
5.2%	Somewhat Disagree
1.0%	Strongly Disagree

36) That role is most best carried out by:

59.6%	Providing tax breaks for research and development activities
40.4%	By spending on research and development activities

37) Government should be doing more to stimulate research and development.

35.8%	Strongly Agree
45.3%	Somewhat Agree
11.6%	Neither Agree nor Disagree
5.3%	Somewhat Disagree
2.1%	Strongly Disagree

Section 8: Open Questions

38) If you could make one change to the provincial tax system (other than the property tax) what would that change be? Why is it important to Saskatchewan?

21.1%	Convert the PST to an HST
17.1%	Introduce a single rate or a flat personal income tax
13.2%	Lower or collect less personal income tax
11.8%	Increase consumption taxes or rely more on them
7.9%	Lower or eliminate the provincial sales tax
3.9%	Increase the progressivity of the personal income tax system
2.6%	Simplify the personal income tax system
22.4%	Other

39) If you could make one change to the municipal component of the property tax, what would that change be? Why is important for Saskatchewan?

20.6%	Link property tax to usage of services and not property values
19.1%	Reduce property tax and replace with other revenues
8.8%	Reduce property tax, lower it, or eliminate it altogether
8.8%	Increase simplicity, accountability, and transparency
5.9%	End use of tax tools such as inclusions rates or mill rate factors
36.8%	Other

40) If you could make one change to the education component of the property tax, what would that change be? Why is it important to Saskatchewan?

39.4 %	Reduce or replace the education property tax with other provincial revenues
21.1%	Reduce or eliminate the education property tax
5.6%	Reduce or eliminate the education property tax on commercial/industrial property
7.0%	Keep the system the same
4.2%	Eliminate the different tiers of education property tax
22.5%	Other

PART 3: Demographics (All percentages based on those who answered the question in Part 1 & 2)

1) What is your gender?

67.9%	Male
32.1%	Female

2) How old are you?

0.1%	Under 20 years old
6.4%	20-29 years old
15.6%	30-39 years old
24.7%	40-49 years old
43.7%	50-65 years old
9.4%	Over 65 years old

3) What is the highest education you have received?

2.0%	Some High School
9.9%	High School Diploma
8.0%	Some College/Technical School
17.0%	College/Technical School Diploma
11.0%	Some University
34.6%	University—Bachelor's Degree
14.9%	University—Master's Degree
2.5%	University—Doctoral Degree

4) Do you live in an urban or a rural area?

85.5%	Urban (Resident in a community with more than 1,000 people)
14.5%	Rural (Resident in a community with less than 1,000 people)

5) Where do you live?

0.9%	Estevan
2.5%	Humboldt
0.4%	Lloydminster
1.3%	Martensville
1.8%	Meadow Lake
1.5%	Melfort
0.7%	Melville
3.1%	Moose Jaw
0.9%	North Battleford
2.8%	Prince Albert
26.1%	Regina
31.2%	Saskatoon
2.5%	Swift Current
0.9%	Weyburn
1.6%	Yorkton
21.8%	None of the above

6) If you answered "none of the above" to the last question, which is closest to where you live?

2.5%	Estevan
3.7%	Humboldt
3.1%	Lloydminster
4.3%	Martensville
0.6%	Meadow Lake
11.0%	Melfort
3.1%	Melville
4.3%	Moose Jaw
3.1%	North Battleford
8.0%	Prince Albert
17.8%	Regina
25.8%	Saskatoon
10.4%	Swift Current
0.6%	Weyburn
1.8%	Yorkton

Survey Discussion

The two surveys provide insight into the state of public opinion on taxation issues in Saskatchewan, but they are not based on a scientific sample. Respondents to the first survey were self-selected, and respondents to the second survey were invited to participate given their expertise on economic issues (regardless of any demographic considerations). As such, the demographic profile of the survey respondents does not reflect the larger demographic profile of Saskatchewan broadly speaking.

Therefore, the survey results should not be construed as reflecting the state of public opinion in Saskatchewan concerning taxation issues. Concerning the demographics, the following should be kept in mind:

- Male respondents were over-represented in the surveys compared to female respondents. Over two-thirds of respondents to the two surveys were male (67.9%). Only one-third (32.1%) were female.
- The surveys tended to attract older respondents as compared to younger respondents. Those aged 40-49 and 50-65 were over-represented compared to other age cohorts. The groups aged 40-49 and 50-65 constituted over two-thirds of all respondents (68.4%).
- Urban respondents were over-represented in the surveys compared to rural respondents. Two-thirds of Saskatchewan residents are considered urban (65.0%). A greater portion of survey respondents were urban (85.5%).
- While respondents from every corner of the province did participate in the surveys, respondents living either in or near Saskatoon and Regina dominated. The population of the Saskatoon and Regina census metropolitan area (CMA) comprise less than half of the provincial population (44.3%) but respondents living in or near those two centres were over two-thirds of the survey population (66.8% of all respondents).
- Third, over half (52.0%) of all respondents had some university education or had completed a university degree. This is much higher than the general population. This may, however, have also led the surveys to yield a more informed set of opinions even though those opinions may not reflect the sentiments of the broader population in Saskatchewan.

Despite these demographic anomalies, the surveys are still helpful. First, they provided all residents of Saskatchewan with an opportunity to voice their opinions on various potential reforms. Second, they do "crack the window" on public opinion in the province. This allowed researchers to catch a glimpse of opinion and to determine which reforms might be easier to pursue, and which might present more difficulty.

GLOSSARY OF TERMS

Acronyms

ATR ....Average Tax Rate

CCT ....Corporate Capital Tax

CIT ....Corporate Income Tax

GDP ....Gross Domestic Product

GST ....Goods and Services Tax

HST ....Harmonized Sales Tax

METR.........Marginal Effective Tax Rate

MTR ....Marginal Tax Rate

PIT ....Personal Income Tax

PST ....Provincial Sales Tax

RST.............Retail Sales Tax

VAT.............Value-Added Tax

WEESR ......Western Economic Expectations Survey Respondents

Definitions

Assessed Value: Assessed value is the starting point of any property tax system. Assessed value is the value of a particular property arrived at using a certain framework of evaluation. In Saskatchewan, an estimate of fair market value is often used in the determination of assessed value.

Average Tax Rate: This is the total taxes paid divided by the value of the tax base in question. For personal income tax, the average tax rate is the total personal income tax bill divided by personal income. For property tax, the average tax rate would be the total property tax bill divided by the assessed value of the property.

Base Tax: This is a property *tax tool* used in Saskatchewan. Base tax can be applied to all properties in a particular property class. The base tax is a specified amount of property tax and results in a reduced rate of tax on properties within a particular class. The purpose of the base tax is to reduce the difference in property taxes paid between lower and higher assessed properties.

Boutique Tax Reforms or Boutique Tax Regime: A tax reform or tax regime that provides preferential tax treatment for different types of taxpayers in an effort to encourage certain activities or discourage other activities. Boutique style tax reforms or a tax system will treat businesses differently. In some cases, businesses operating in the same sector might be treated differently.

Broad-Based Tax Regime: A tax regime that applies equally to all forms of business and types of business activity. Such a regime is sometimes referred to as a *neutral* tax regime.

Capital Cost Allowance: This is a deduction in the determination of business or rental income in either the *personal income tax (PIT)*, *corporate income tax (CIT)*, or *corporate capital tax (CCT)* systems. It is similar to the accounting concept of depreciation.

Deficit: This is a shortfall of revenues over expenditures. There are numerous ways to measure a deficit. In the context of this report, the deficit in view is any potential shortfall of revenues over expenditures reported by the Government of Saskatchewan in its *General Revenue Fund.*

Education Property Tax: This is the property tax that is imposed on all classifications of property to help finance expenditures related to K-12 education.

Effective Rates of Property Tax: This is the relationship of the property tax paid to the assessed value of that property. It is analogous to the concept of the *average tax rate.*

Evaluation Criteria: Criteria that are used to judge a tax regime or proposed reforms to that regime. The criteria used in this report are discussed in detail in *Appendix I.*

Flat Tax: This term is used to define a personal income tax (PIT) system with one rate of tax applied to a broad measurement of income. The term *proportionate tax* is also used to describe this type of personal income tax.

General Government Debt: This is government debt that can be attributed to borrowing reported through the *General Revenue Fund.* Debt is the accumulated amount of all *deficits.*

General Revenue Fund: This is the main operating fund used to report revenues and expenditures of the Government of Saskatchewan for a particular fiscal period.

Gross Domestic Product: This is a measurement of the value of economic production of a particular jurisdiction.

Harmonization: This term refers to making two taxes imposed by different levels of government similar, both in terms of the application to a common tax base and the set of rules governing the imposition of the tax.

Inclusion Rate: This is a term used in the determination of the property tax owing. It refers to the percentage of assessed value that will be subjected to tax. The inclusion rate is a percentage that is applied to *assessed value* to determine *taxable assessment.* In Saskatchewan, the inclusion rate for commercial and industrial properties is higher (100%) than that applicable to residential properties (70%). This means that commercial and industrial properties are taxed at 100% of their assessed value while residential properties are taxed at only 70% of their assessed value.

Income Thresholds: In the *personal income tax (PIT)* system, this is the amount of income at which tax is imposed and payable. The amount differs based upon an individual taxpayer's personal circumstances.

Input Tax Credits: This is a reduction in the amount of *provincial sales tax (PST)* payable as a result of certain purchases necessary to operate a business.

Low Income Tax Credit: This is a tax credit in Saskatchewan's provincial *personal income tax (PIT)* system that at one time was referred to as the *Sales Tax Credit.* It is a *refundable tax credit* and is intended to help lower income residents and those on fixed incomes, many of whom pay no provincial income tax (e.g., seniors, students).

Manufacturing and Processing (M&P) Rate: In the *corporate income tax (CIT)* system, this is the rate of tax applied to profits earned from manufacturing and processing activities. In Saskatchewan, the M&P rate is currently lower than the general corporate income tax rate.

Marginal Tax Rate: This term is used when referring to the *personal income tax (PIT)* system. It is the rate of tax an individual will pay on the next $1 of income earned.

Marginal Effective Tax Rate: The *METR* measures the incremental taxes payable on the next capital investment a firm might make. Usually, it does not consider property taxes or taxes on non-capital consumption.

Mill Rate: Most tax rates are expressed as a *percent*—the amount of tax per 100 units of value. Property taxes, however, are expressed as a *permille*—the amount of tax per 1,000 units of value. Thus, property tax rates are often called the *mill rate.* To calculate the property tax owing, governments multiply the assessed value of a property by the mill rate and then divide the total by 1,000. Thus, a property with an assessed value of $250,000 with a tax rate of 10 mills would have a property tax bill totalling $2,500.

Mill Rate Factor: This is another property *tax tool* used in Saskatchewan. The mill rate factor is an adjustment of the mill rate that results in a differential effective tax rate for different classifications of property. While the *inclusion rate* specifies the amount of assessed value that will be subject to tax (taxable assessment), a *mill rate factor* specifies the amount of the mill rate that will apply to taxable assessment. Mill rate factors differ between different classifications of property, and are used to transfer some of the cost of local services from one property classification to another *(see Appendix G).*

Minimum Tax: This is another property *tax tool* used in Saskatchewan. Minimum tax can be used to increase the amount of property tax generated from lower assessed properties within a property class. A minimum tax is paid on all property within a classification, regardless of the tax otherwise determined.

New West Partnership: This is an interprovincial trade agreement among British Columbia, Alberta, and Saskatchewan. The partnership establishes Canada's first and largest open, efficient, and stable common market.

Non-Residential Property: For purposes of this report and the reforms identified, non-residential property includes both commercial and industrial properties, but excludes agricultural property.

Point of Sale Exemption: If a good or service is not subject to a broad-based sales tax, it is said to be a point of sale exemption. In Saskatchewan, children's clothing for example, is subject to a point of sale exemption.

PST Offsets or PST Credits: These two terms, plus the term *input credits,* refer to a credit delivered through the *corporate income tax (CIT)* system for goods purchased that have been subject to the *provincial sales tax (PST).*

Progressive Tax: This is a term used to define a *personal income tax (PIT)* system where the rate of tax increases as the amount of income increases.

Proportionate Tax: See the term *flat tax* above. A proportional income tax is a single tax rate on a broad definition of income.

Rate Threshold: In a *personal income tax (PIT)* system, the rate threshold is the lowest income level for each of the various income brackets.

Residential Property: A property tax classification that includes single and multi-family residences.

Resource Revenue: The revenue that a government receives as a result of the development and extraction of various natural resources within the province (e.g., minerals, oil, gas, potash). The most important element of such resource revenue is royalties. Royalties may be based on volume, sales value, profit, or a combination of these variables.

Single Rate Tax: This is a term used to define a *personal income tax (PIT)* system that has one rate of tax applying to a measure of income after the deduction of certain base amounts that vary depending on the circumstances of the taxpayer. Alberta has a single rate tax of 10% that is applied to all taxable income.

Small Business Limit: This is the maximum amount of business income subject to the *small business tax rate* under federal and provincial systems of *corporate income tax (CIT).*

Small Business Tax Rate: This is the lower rate of *corporate income tax (CIT)* imposed on business income underneath a specified threshold when earned by *Canadian Controlled Private Corporations (CCPCs).*

Tax Credit: A tax credit reduces the amount of income taxes payable. Credits usually arise from a particular situation or a particular activity. Credits can be one of two types—refundable or non-refundable. With a *refundable* tax credit, if the amount calculated for the credit is greater than the amount of tax otherwise payable, the difference is refunded to the taxpayer. With a *non-refundable* tax credit, if the amount calculated for the credit is greater than the amount of tax otherwise payable, the difference is not refunded. In other words, a *non-refundable* tax credit will not reduce the taxes otherwise payable below zero. Credits can be income-tested or made available to all taxpayers regardless of income.

Tax Mix or Tax Profile: These terms refer to the types of taxes that make up the tax regime, and the degree to which the tax regime relies more heavily on one type of tax over other types of taxes.

Tax Revenue Leakage: This term refers to the possibility of taxpayers paying tax to a different jurisdiction than to the jurisdiction where the economic activity took place. This can happen when one jurisdiction's tax regime is more competitive than another.

Tax Tool: In the property tax system in Saskatchewan, there are a number of tools that can change the property tax that would otherwise be determined on a particular property and among property classes.

Taxable Assessment: In the property tax system, this is the portion of assessed value that is subjected to property tax. Taxable assessment results from applying the *inclusion rate* to *assessed value*.

Value-Added Tax: This is a consumption or sales tax levied at each stage of production and distribution, and is based only on the value-added to the product at each stage. Value-added taxes are ultimately paid only by the final consumer of a good or service.

Well-Being: The economic gain or loss from changes in the tax regime. It is a measure of changes in consumption and leisure time available to households or individuals.

Western Economic Expectations Survey Respondents (WEESR): The *WEESR* is a group of people identified by the Canada West Foundation and located across western Canada that are opinion leaders on economic issues. The *WEESR* group is surveyed regularly by the Foundation on important economic policy issues. Separate *WEESR* groups exist in Manitoba, Saskatchewan, Alberta and British Columbia.

About Canada West Foundation

The Canada West Foundation is the only think tank dedicated to being the objective, nonpartisan voice for issues of vital concern to western Canadians. Through our research and commentary, we contribute to better government decisions and a stronger Canadian economy.

The West is in. And the Canada West Foundation helped put it there. Over the past 40 years, our research and commentary has improved government policy and decision making. Today, the West is on the national agenda and is at the forefront of the most important debates that will shape our country.

We give the people of British Columbia, Alberta, Saskatchewan and Manitoba a voice. A voice for their dreams, interests and concerns. As westerners, we understand the people and the places of the West. We know our history and how it influences our future. Whether it is the economy, energy, environment, education, healthcare, taxes, social services, urban issues, provincial-federal relations or any other policy area of importance to the West, we have researched it, commented on it, stimulated debate about it and recommended practical options for improving the policy response. Democracy lives.

Our credentials are impressive. We have the policy and economic experts you need. Our Board of Directors represent the who's who of the four western provinces. Our list of projects is long. We're just like the West. Absolutely essential. Absolutely part of Canada's success.

More information can be found at www.cwf.ca.

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