



15th Legislative Assembly of the Northwest Territories

Standing Committee on Accountability and Oversight

Report on the Review
of Bill 6, *An Act to Amend the Payroll
Tax Act, 1993* and the *Income Tax Act*

Chair: Mr. Kevin Menicoche

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Accountability and Oversight is pleased to provide its Report on the Review of Bill 6, *An Act to Amend the Income Tax Act, 1993* and the *Income Tax Act*.

Kevin Menicoche, MLA
Chairperson

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**STANDING COMMITTEE ON
ACCOUNTABILITY AND OVERSIGHT
AN ACT TO AMEND THE PAYROLL TAX ACT, 1993 AND THE
INCOME TAX ACT**

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The Standing Committee on Accountability and Oversight is pleased to report on its review of Bill 6, *An Act to Amend the Payroll Tax Act, 1993 and the Income Tax Act*.

The Committee held public hearings on May 20 and 21, 2004 in Yellowknife.

The Committee would like to thank the NWT Seniors' Society for their presentation, and the NWT Chamber of Commerce, NWT & Nunavut Chamber of Mines and the NWT Construction Association for their joint written submission.

The Committee would also like to thank the Minister and his staff for presenting the Bill.

Bill 6 is the final piece of legislation needed to put into effect the revenue initiatives announced in the 2004-2005 Budget Address. Bill 6 will increase the payroll tax from 1% to 2%, increase cost of living tax credits, and reduce the personal income tax rate on the lower two income brackets. Bills 2 and 3, which were passed earlier this year increased the large corporate tax rate and the personal income tax rates for the top two income brackets. The Committee was advised by Department of Finance staff that, even including the payroll tax, the NWT's top personal income tax rate will still be one of the four lowest in Canada.

The combination of revenue measures represented by Bill 2, Bill 3 and Bill 6 will help to address the NWT's need to keep up with the tax efforts of other provinces

and territories. The consequences of not keeping up are that the NWT would be penalized in its formula funding deal with Ottawa.

The increase to the payroll tax is primarily intended to allow the GNWT to collect more revenue from individuals who work in the NWT, but who reside and file their income taxes in other parts of Canada. The numbers of these “fly-in fly-out” workers are steadily increasing as more resource developments come onstream, and it is expected that there will be a significant spike with the construction of a Mackenzie Valley pipeline. Bill 6 will help to position the GNWT for increased resource development, although revenues from the payroll tax will continue to be modest unless and until the construction phase of the Mackenzie Valley pipeline begins.

The changes to the cost of living tax credits and the personal income tax rates for the lower two brackets are intended to partially offset the payroll tax increase for NWT residents. The Committee commissioned independent research to gauge the combined impact of Bill 3 and Bill 6 on resident taxpayers in several different scenarios. The findings are appended to this report. While the scenarios outlined are somewhat simplistic, they do confirm that lower and middle income wage earners will see modest net reductions in their overall income tax as a result of Bill 6.

Some residents with higher incomes will see a net loss as the higher tax credits and lower personal income tax rates will only partially offset the payroll tax increase for them. Taxpayers whose income comes from sources other than wages, such as pensions or self-employment, will see a net gain of as much as \$800 because they will benefit from the changes to tax credits and tax rates although their income sources are not subject to the increased payroll tax.

Although some middle and high-income earners will see net losses in their take-home pay, the number of residents who will gain from these changes outnumbers those who will lose some income. In this context, those people who have fewer options to deal with the high cost of living in the NWT will be a little better off.

Although Bill 6 will directly benefit many lower and middle income earners, some Committee Members stressed that tax increases cannot be looked at in isolation, but must be considered in the context of the high northern cost of living. Similar concerns were also raised in both submissions the Committee received. The NWT Chamber of Commerce, NWT & Nunavut Chamber of Mines and NWT Construction Association suggested that an increasingly unattractive tax burden will make recruiting and retaining skilled and professional workers to the NWT even more difficult than it already is. The NWT Seniors' Society raised concerns that any tax reductions lower and middle income earners receive as a result of

this Bill could be more than offset by increases to the cost of living that result from a higher payroll tax.

The clause by clause review of Bill 6 took place on May 21. Two amendments of a minor and technical nature were agreed to at that time.

Following the Committee's review, a motion was carried to report Bill 6, *An Act to Amend the Payroll Tax Act, 1993 and the Income Tax Act*, to the Assembly as ready for Committee of the Whole as amended and reprinted.