



Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

Public Hearing of Bill 13, An Act to Amend
the Income Tax Act, No. 2

June 17, 2002

Public Hearing

Standing Committee on Accountability and Oversight

Chairman

Mr. Charles Dent, MLA for Frame Lake

Deputy Chairman

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MLA for Yellowknife South

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Mr. Bill Braden
MLA for Great Slave

Ms. Sandy Lee
MLA for Range Lake

Mr. Paul Delorey
MLA for Hay River North

Mr. Michael McLeod
MLA for Deh Cho

Mrs. Jane Groenewegen
MLA for Hay River South

Mr. David Krutko
MLA for Mackenzie Delta

Witnesses

The Honourable Joe Handley, Minister of Finance

Ms. Margaret Melhorn, Deputy Minister of Finance

Mr. John Monroe, Director, Fiscal Policy, Department of Finance

Ms. Lisa Richinger, Executive Assistant

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Ms. Jacqueline McLean, AOC Committee Coordinator

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT**Public Hearing of Bill 13, An Act to Amend the Income Tax Act, No. 2****Monday, June 17, 2002**

CHAIRMAN (Mr. Dent): We will call the meeting back to order. We are on item 10, which is a public hearing on Bill 13, An Act to Amend the Income Tax Act. Just for committee members, does anyone object to the presence of a television camera during the public hearing. There are no objections.

To present the bill, we have Minister Handley. Mr. Minister, would you please introduce your delegation and then commence with your opening comments?

HON. JOE HANDLEY: Mr. Chairman, with me are Margaret Melhorn, deputy minister of finance; John Monroe, director of fiscal policy; and Lisa Richinger, my executive assistant.

Mr. Chairman, I am pleased to introduce Bill 13, An Act to Amend the Income Tax Act, No. 2. This bill proposes to reduce Northwest Territories corporate income taxes effective July 1, 2002. If the Legislative Assembly agrees, the general corporate income tax rate will be reduced from 14 percent to 12 percent - - That is a reduction of 14 percent in the taxes that they would pay -- and a small business rate -- that is the rate applicable to the first \$200,000 in income of Canadian-controlled private corporations -- will be reduced from 5 percent to 4 percent. This represents a reduction of 20 percent in the small business tax rate.

The Northwest Territories has long maintained a very competitive tax environment with both personal and corporate tax rates among the lowest in Canada. These competitive rates have helped us to attract individuals and businesses to the North. In fact, our competitive corporate tax rates have, in the last two years, resulted in several large revenue gains. As members are aware, these corporate tax revenues have allowed this government to make important investments in programs and infrastructure that would not have otherwise been possible.

Recently, however, a number of provinces and territories have announced significant reductions in their personal and corporate income tax rates. These changes have reduced the Northwest Territories' overall competitiveness. Our position, relative to other jurisdictions, could have negative effects on our tax base as companies look to do business where the tax climate is more favourable. Even companies currently paying tax in the Northwest Territories may re-examine their corporate structures to minimize their tax liabilities.

The changes in Bill 13 would result in the Northwest Territories having, along with Nunavut, the lowest general corporate income tax rate and the second-lowest small business rate after New Brunswick. I am looking for an early indication of members' response to this proposed change in order to be able to confirm the effective date with the federal government, who administers corporate income tax on our behalf. Finance Canada must be notified within 90 days of the effective dates of any corporate tax changes. Thank you, Mr. Chairman.

CHAIRMAN (Mr. Dent): Thank you, Mr. Minister. Any questions from committee members on the Minister's opening comments? Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. It is interesting how he has worded this 14 percent to 12 percent reduction in general corporate tax rate, a reduction of 14 percent. Is that 14 percent of the income coming in, or 14 percent in taxes they would pay? In simple math I see it as a two percent reduction, but you have it stated as a 14 percent reduction. Is that 14 percent lower revenue coming in as a result of the two percent change?

CHAIRMAN (Mr. Dent): Mr. Minister.

HON. JOE HANDLEY: Mr. Chairman, the reason I pointed that out both here and with the small business tax is that there was some thought I think from some people that if you are lowering large business tax by 2 percent, from 14 percent down to 12 percent, why not lower small business taxes down from 5 percent to 3 percent? But because you are dealing with different size numbers here, the difference between 14 and 12 works out to a 14 percent reduction. So someone who is paying \$1 million in taxes at 14 percent would be paying 14 percent less at the new 12 percent rate. Whereas with someone who is paying 5 percent taxes, and the rate changes to 4 percent, that is a 20 percent reduction in the amount of taxes that they would have to pay. Under this change, small businesses are doing very well. Some would say it is only a 1 percent reduction, it really is a 20 percent reduction in their tax payable.

CHAIRMAN (Mr. Dent): Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. What is the value of this change? How much less revenue will we be taking in as a government?

CHAIRMAN (Mr. Dent): Ms. Melhorn.

MS. MELHORN: That is a difficult question to answer because a lot of it depends on what we would have collected in the absence of this change. If we had not made this change, which businesses would have chosen to restructure their affairs or to file taxes elsewhere?

If we do make the change and we attract businesses from other jurisdictions, again, it has an effect on the tax base. In the absence of any changes to the tax

base, which as I say, is difficult to predict one way or the other, and we just look at it as a rate reduction, over the course of four years because our tax revenues are very volatile, so just looking at one particular year may not be indicative. So over four years, it would be in the order of \$7 million to \$10 million.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: Thank you. Just a verification from the Minister. He suggested that some people were of the thinking that small business tax rates should be reduced from 5 percent to 3 percent. The committee wrote the Minister a letter suggesting that we felt since the majority of these small businesses were Northwest Territories businesses and Northwest Territories residents as opposed to the majority of the larger income tax filers, the larger corporations not primarily being Northwest Territories businesses, that we felt it made the most sense to give the bulk of the benefit to the smaller Northwest Territories businesses. I am just wondering why he has chosen to favour, I guess -- everyone is getting a reduction, but he seems to be putting the majority of the emphasis, as I see it, on the large corporations. I believe he has done a CBC interview talking about large corporations and the benefits that they would accrue.

I am wondering if the Minister would just confirm that this committee was in favour of, and he did consider our recommendation of, moving lower on small business tax rates.

CHAIRMAN (Mr. Dent): Mr. Handley.

HON. JOE HANDLEY: Mr. Chairman, yes, the committee suggested to me that they would be in favour of going from a 5 percent to a 3 percent reduction in tax rates for small businesses. When I looked at it, that would have been a 40 percent decrease in taxes for small corporations. When we look at the changes that we did for individuals on income tax, then it ranges a lot depending on your income. A single individual earning \$200,000, for example, would see a 2 percent decrease in taxes. Someone earning \$60,000, which is probably more typical of an average salary here would have a 12 percent decrease of their taxes as a result of measures we have taken in the last year.

So trying to keep everything in line, we said, okay, with large corporations we are giving them roughly a 14 percent tax breaks. With individuals, depending on income, it is from 2 percent up to someone with no income, essentially, gets 100 percent of a break. On average, single individuals get about 12 to 14 percent. Large corporations get 14 percent and small corporations, small businesses, will get about 20 percent. We want to keep everything balanced.

To go the extent of 5 percent to 3 percent would have taken us with one sector of our society going to a 40 percent decrease. Even the Canadian Federation of Independent Businesses recommended going from 5 percent to 4 percent. We

felt this was consistent with their recommendations as well. I felt it was important to keep that balance in there. Thank you.

CHAIRMAN (Mr. Dent): Mr. Bell.

MR. BELL: Thank you. Speaking of the CFIB recommendations, and I am not aware this time around of what their official position has been, but in the past they have always advocated that we needed to look at our thresholds, because at \$200,000 we are talking, I think, about one of the lower thresholds for small business tax rates. In your opening comments you indicate that we have the second lowest small business rate after New Brunswick, but that does not really take into account the whole picture for small business, does it, given that we have a fairly low threshold. I would imagine that the CFIB would have also recommended that we look at raising that. Is that the case?

CHAIRMAN (Mr. Dent): Mr. Minister.

HON. JOE HANDLEY: I believe the CFIB did recommend increasing that threshold. Again, when we looked at that one, we have somewhere in the neighbourhood of at least 1,000 small businesses in the North who are incorporated. Probably half of those are paying taxes.

When we looked at the numbers paying taxes between \$200,000 and \$300,000 then there are very few. We do not know exactly this year, but based on historical figures it went as low as one company to now, with a much healthier economy, when companies file we will probably see 15 companies in that range. It is not big. We are not impacting a lot of people.

The other one is that we need to notify the federal government well in advance if we are changing those brackets and we would not have time to do that before the July 1st deadline if we started negotiating it. We thought for this exercise, in order for it to become effective July 1st we would stay with the \$200,000. Thank you.

CHAIRMAN (Mr. Dent): Thank you, Mr. Minister. I think you did make that point to the committee. In order to be accommodating we understood that would create some headaches for us and probably delay this for some time. We agreed to forgo any sort of push to have you look at the thresholds this time around in exchange for a 2 percent reduction in the small business rate. That was certainly my thinking.

I would certainly like some assurances from the Minister that in the future we will take a look at the thresholds. It is one thing to say that we have the second lowest small business rate. If anyone takes a look at this with any level of scrutiny they will realize that just suggesting we have the second lowest rate does not mean that we have the second best or second most favourable environment for small business in the country. I would hope that this Minister would look at those thresholds going forward. Thank you.

CHAIRMAN (Mr. Dent): Mr. Minister.

HON. JOE HANDLEY: Mr. Chairman, certainly we will look at that as we look at our overall tax policy and how we structure this. I think both the rates as well as the percentages and moving taxes down are things we need to look at further. I still believe that this proposal keeps a nice balance with all sectors in our society. Thank you.

CHAIRMAN (Mr. Dent): Mr. McLeod.

MR. MCLEOD: Mr. Chairman, it is my understanding that this government will be returning to negotiations in 2003, if not sooner, for a new formula financing agreement. We have been pounding on the door of the federal government to try to access new dollars for our whole time spent here. I am wondering if we should be anticipating any negative backlash as a result of us lowering our taxes while we negotiate a new formula financing agreement.

CHAIRMAN (Mr. Dent): Minister Handley.

HON. JOE HANDLEY: Mr. Chairman, I do not think so. I did discuss this with Paul Martin when he was the Minister of Finance. He understands that as a result of our tax moves and our tax strategy that the federal government has in fact benefited by at least \$250 million that they would not have gotten if these tax filers had filed their taxes in Alberta or in Ontario, the federal government would have gotten none of it. Looking at the bigger picture, the federal Department of Finance and the Finance Minister will quickly realize that what we are doing here is a benefit to them as well, and not say that we are not exercising enough tax effort. I do not think that will be their thinking.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. On the same grounds as Mr. McLeod, Statistics Canada numbers are down and we are probably going to be getting less money if we use those statistics, as well as the implications of previous tax cuts. I know previously we increased the northern cost of living allowance. There again, the MP's response when we asked for more money, her comment was, well, did you not just increase the northern cost of living allowance? Why do you need more money if you are making all these cuts in all these different areas? Why are we going hat in hand to the federal government saying we need more money for infrastructure, we need more money for health programs?

My concern is, what is next? Maybe what we should consider doing is looking at property taxes. Is that the next area we are looking at? We looked at the cost of living, we are looking at personal and corporate taxes, sooner or later we are not immune to what is going on around us. With all these developments happening in our communities the cost of living is going up. A lot of people who born and raised and lived in the North all their lives, the cost of living and seeing what is

happening around us because of development, they are the ones getting the tax breaks, not the people who establish and stay in the small communities. It is the corporations who are going to make the biggest gain from this change.

My concern is, knowing there has to be some backlash to this, you can say you talked to Paul Martin. Well, Paul Martin is no longer there. We have to find a system so we do not hear this argument, because we have heard it already from our MP when we made the increase in the cost of living. The allowance went up. Her first comment was why do we need money if we are cutting in other areas?

How does that affect our formula? Our numbers are down with Statistics Canada and also looking at this as another decrease in means of generating revenues. The only revenue source we have is taxes and property taxes. Those are two areas we can generate revenues in. The other one comes from our formula. I am concerned that this will have an effect on the formula financing agreement we have with Ottawa. I would like to know at what point in time do we say we cannot go any deeper because zero percent is zero percent. You cannot get any lower than that. It seems like we are going down but the cost of operating programs and services in the North and the cost of running government in the North is going up because of the economics of what is going on around us.

CHAIRMAN (Mr. Dent): Mr. Minister.

HON. JOE HANDLEY: Mr. Chairman, we have to look at all of our taxes on an ongoing basis to make sure we are maintaining a competitive environment and a reasonable cost of living and cost of doing business. Those are ongoing things we do all the time. When it comes to large corporate taxes, the federal government will agree with us that we have to take measures to ensure that those large corporations are continuing to pay their taxes in the Northwest Territories. If we do not keep a competitive rate and going along with the rest of the provinces and keeping our rates competitive, they will find ways of paying at least part of their taxes somewhere else. We might say that it is the large corporations who are benefiting from this, we are also benefiting or losing, depending on how much tax they are paying in the Northwest Territories. If they find ways of paying all their taxes somewhere else, then they are just going to be taking our resources out, paying their taxes somewhere else, and we get no return.

Keeping those corporations paying here is very important. Mr. Krutko is right, we cannot continue to reduce our taxes to the point where there is no benefit to us on our formula. We would, on the current formula, probably the 12 percent we are at now is as low as we can go without it beginning to have a negative effect on us.

It is kind of a superficial view to say that we are lowering our taxes so we must have lots of money. That is not the case at all. On the surface that is what it looks like, but in effect what we are doing is keeping our taxes competitive so we do

continue to attract new money from outside as well as from present tax payers. Mr. Martin understood that, I think Minister Manley will understand it. I know the federal Department of Finance understands it.

When we negotiate a new financing formula I hope that we will see more sensitivity in that formula toward resource revenues, not just on a grant. I do not think that as a territory our long-term vision should be to continue to live on a grant. I am quite proud of the fact that the amount of money that we take in through our own source revenues compared to our grant has almost doubled in the last year. I know it is temporary, but at least we are picking up most of our money without a grant from the federal government. The majority of the money is through our own efforts. That is the kind of position we want to keep ourselves in in the long term.

We certainly have enough resources going out of here that the taxes from the large corporations should be enough in the long run that we all benefit, not just the corporations themselves.

CHAIRMAN (Mr. Dent): Just a reminder to committee that there is another committee meeting scheduled for this room so we need to try and move things along. Mr. Krutko.

MR. KRUTKO: I was just going to say that it seems like we keep touching on how we are helping out the federal government here. I think that is the problem. The formula financing agreement that we have, where they get 80 cents on every dollar we generate is an advantage to them. For us it is a disadvantage to generate that type of insurance. It is great to get 20 cents on the dollar, but knowing we have these negotiations going on that should be the key goal of this government, that we maintain more corporate taxes, more of the personal taxes that are presently being paid, and for every dollar we generate we should be keeping at least 50 cents on the dollar, so at least half of it stays in the North. Right now we are getting 20 cents on the dollar. Every dollar we generate, 80 cents goes to Ottawa. For them, sure, it is great. Sure you can make \$300 million in corporate taxes, but at the end of the day when you are getting \$70 or \$80 million and they are keeping \$200 million plus dollars, there is something wrong with that picture.

What we are doing here, sure we are doing the homework for the federal government but we should insure that all of this economic development and all the resources going on up here -- my frustration with all this development going on is we have all the jobs and development, but the dollars are flowing south. They are flowing to either Alberta or Ottawa or the provinces but very little actual physical dollars are staying in the North to help us develop our infrastructure and run programs and services so that we do not have this situation where we are cutting and trying to find ways of streamlining programs and services.

What is happening is that we might be wealthy in the context of the word wealth, but when it comes to actually physically having the dollar in your pocket, we do not have that dollar in our pocket. It is in someone else's pocket. I think it is important that we as a government have to ensure that what we are doing here is something that we are going to use in our negotiations for our next formula financing agreement. If we are going to do all this work before we come to the table, the federal government, for them, there is no need for them to negotiate with us. Just keep on giving us this little hand out of \$800 million because at the end of the day they are probably going to get \$600 to \$800 million back anyways through taxes, royalties and other revenues.

For me, it seems like we are falling into the hands of the federal government with what we are doing. I think it is important that we see what our strategy is going into those negotiations, and is this going to be a downfall for us when we go to the table with the federal government because of us setting this bad precedent or making these changes right now?

CHAIRMAN (Mr. Dent): Mr. Minister.

HON. JOE HANDLEY: Mr. Chairman, I do not think this will be setting a bad precedent. I think the people in Federal Finance understand what we are doing and realize the direction we are heading. The only thing I can say is I agree with Mr. Krutko that we want to keep as much as possible here and as part of our whole strategy as a government, a big piece of it is devolution and resource revenue sharing. We have to get a better arrangement for resource revenue sharing and hopefully these things will evolve together.

In the mean time, until we have that formula in place, we have to do everything we can to ensure that the existing companies are paying as much of their taxes here as possible, even if we are only keeping 20 percent. Thank you.

CHAIRMAN (Mr. Dent): Thank you. Is the committee ready for clause by clause?

SOME HON. MEMBERS: Agreed.

CHAIRMAN (Mr. Dent): Bill 13, An Act to Amend the Income Tax Act, No. 2. Clause 1.

SOME HON. MEMBERS: Agreed.

CHAIRMAN (Mr. Dent): Clause 2.

SOME HON. MEMBERS: Agreed.

CHAIRMAN (Mr. Dent): Clause 3.

SOME HON. MEMBERS: Agreed.

CHAIRMAN (Mr. Dent): Clause 4.

SOME HON. MEMBERS: Agreed.

CHAIRMAN (Mr. Dent): The bill as a whole?

SOME HON. MEMBERS: Agreed.

CHAIRMAN (Mr. Dent): Does committee agree that Bill 13 is ready for consideration in committee of the whole? Mr. Bell.

MR. BELL: Mr. Chairman, I move that Bill 13, An Act to Amend the Income Tax Act, No. 2, be reported to the Assembly as ready for committee of the whole.

CHAIRMAN (Mr. Dent): Thank you. The motion is in order. To the motion. Question has been called. All those in favour? All those opposed? I noticed one vote that did not count there, Mr. Minister. The motion is carried. Bill 13 is now ready for consideration in committee of the whole. Thank you, Mr. Minister and to your officials for your attendance today. For committee, this meeting is adjourned. We will meet again today as soon as the House rises for an in-camera session with the Minister. We are adjourned.

-- ADJOURNMENT

