Alberta Business Tax Review

REPORT AND RECOMMENDATIONS

September 2000

ALBERTA BUSINESS TAX REVIEW COMMITTEE

Honourable Steve West
Provincial Treasurer

Dear Dr. West:

As members of the Business Tax Review Committee, we are pleased to submit to you our report on Alberta business taxes. The report contains recommendations for changes we feel are necessary to strengthen Alberta's competitive edge in today's high-tech, global economy, and which we feel are sustainable.

During the course of our review, we heard from a number of different groups and individuals who contributed views and ideas to our analysis. We would like to extend our appreciation to all those who provided input to the process.

Given the breadth of the business taxes under consideration and the diverse backgrounds of Committee members, if there were any cases where a conflict of interest may have been perceived, members abstained from participating in discussions and voting on recommendations.

We wish to thank you for the opportunity to participate in this review. We believe the recommendations will improve and maintain Alberta's tax advantage, for the benefit of all Albertans.

[original signed]

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Highlights

The Alberta Business Tax Review was launched in February 2000. The primary purpose of the review was to examine the impact of Alberta's business taxes on the province's economic and business climate and our international competitiveness, and to make recommendations to improve Alberta's competitive position.

In the past eight months, the Business Tax Review Committee has reviewed tax trends across Canada and around the world, assessed how Alberta's competitive position measures up with other jurisdictions around the world, advertised widely to seek the views of interested Albertans, reviewed submissions, and listened to a wide range of ideas and suggestions for changes to Alberta's current business taxes.

This report provides a summary of the wealth of information and ideas considered by the Committee and the Committee's recommendations for improving Alberta's competitive tax advantage.

The Committee focused on two objectives: competitiveness and sustainability.

From the outset, the Committee's work focused on meeting two objectives: competitiveness and sustainability. There is no doubt that Alberta's tax advantage is being eroded and that substantially lower business taxes are essential to improve Alberta's competitive position, especially in the face of world-wide trends to lower corporate income taxes and increasingly mobile capital and highly skilled people. Improving Alberta's tax advantage is critical to ensure that Alberta can maintain a vibrant economy and continue to produce more and better jobs for Albertans. On the other hand, business taxes are a key component of Alberta's tax mix and provide significant revenues to help support government programs and services.

Competitiveness of our tax regime and sustainability of our overall fiscal plan are therefore linked. The level of tax revenue depends on the size and health of our tax base – both people and businesses – for which we compete globally. In preparing its recommendations, the Committee sought to strike the right balance between these two interconnected objectives – improving Alberta's competitive position and ensuring that tax cuts are sustainable over time.

The Committee reviewed each of the various taxes paid or collected by Alberta businesses and assessed those taxes in terms of key questions:

- ✓ How do Alberta's rates for each of the various taxes compare with other jurisdictions?
- ✓ What would be the impact of lowering various taxes on Alberta's competitive position?
- ✓ What changes in Alberta's tax mix would result in the biggest benefit for the province as a whole?
- ✓ Are the proposed tax reductions sustainable and do they provide the best tax mix for the future?

OVERALL CONCLUSIONS: ACTION IS NEEDED TO IMPROVE ALBERTA'S TAX COMPETITIVENESS.

✓ ***Standing still is not an option.*** Alberta must make significant reductions to overall business taxes in order to maintain and enhance our competitive position. The benefits to Albertans will come through higher quality jobs, higher wages, lower prices, increased economic activity, and more investment in existing and emerging businesses.

✓ At the same time, ***tax cuts must be sustainable***. A sufficient amount of revenue from business taxes is essential to support government programs and services. The province cannot count on resource revenues, personal income taxes and property taxes as the only major sources of support for government programs and services. An important component of ensuring sustainability is for the province to continue paying down debt and reducing debt servicing costs.

> *"Aggressive action is needed and needed quickly."*
>
> **Calgary Chamber of Commerce**

✓ ***Substantial cuts to corporate income taxes provide the best advantage.*** Low corporate income taxes provide the biggest benefit for the most businesses in the province. Reducing corporate income taxes is the most effective tool for stimulating economic growth and provides the biggest incentive to invest, create wealth, attract and grow new businesses, and create quality jobs for Albertans. While reductions in other business taxes may benefit particular industries, financial realities dictate that choices have to be made. Maintaining other taxes at the current rates ensures a wide tax mix and provides ongoing revenue to help offset the cost of reducing corporate income taxes for all businesses in the province.

✓ ***Significant cuts to taxes paid by small businesses will support an essential component of Alberta's economy.*** Alberta's small business sector has consistently been a dynamic engine of growth in the province. Reducing corporate income taxes for small businesses recognizes their importance to Alberta's economy, supports entrepreneurship, and encourages further growth and investment in small businesses across the province.

> *"A ringing endorsement for corporate tax reduction is evident when almost 40% of respondents say that lower Corporate Taxes will result in a direct and immediate growth in their businesses. Almost 25% say that it would result in new jobs in their businesses."*
>
> **Red Deer Chamber of Commerce**

RECOMMENDATIONS: LOWERING CORPORATE INCOME TAXES IS THE TOP PRIORITY.

Alberta's corporate income tax rates for all corporations should be substantially reduced to the lowest in the country and competitive with other leading jurisdictions around the world.

> *Alberta's corporate income taxes should be the lowest in the country.*

1. **The general corporate income tax rate should be reduced from 15.5% to 8% and the manufacturing and processing rate should be reduced from 14.5% to 8%, effective January 1, 2001.**

   Alberta's combined federal-provincial corporate income tax rate is 44.62% in 2000. By 2006, the combined rate would be 30.12%, reflecting the federal rate reduction to 22.12% and the Committee's recommendation.

The small business tax rate should be cut in half and the threshold doubled.

The corporate income tax rate for Alberta's small businesses should be cut in half and the threshold should be doubled.

2. **Alberta's small business rate should be cut in half from 6% to 3%, effective January 1, 2001.**
3. **The amount of active business income eligible for the small business deduction should be doubled from $200,000 to $400,000 of taxable income, effective January 1, 2001.**

   Alberta's combined federal-provincial small business tax rate is 19.12% in 2000. The Committee's recommendation would drop that rate to 16.12% in 2001.

With some specific exceptions, other taxes paid or collected by businesses in Alberta should be maintained at current levels.

4. **Fuel tax rates for aviation fuel, railway diesel fuel, gasoline and diesel fuel should be maintained at current levels. Changes should be made to current fuel tax exemption programs so that only unlicensed vehicles and equipment are eligible to use marked, tax exempt fuel.**
5. **Capital taxes levied by other provinces, including those levied on financial institutions, should not be deductible for the purposes of calculating corporate taxable income in Alberta.**
6. **Alberta's capital tax on financial institutions should be eliminated.**
7. **No changes should be made to the insurance corporations tax or the hotel room tax.**
8. **Government should address issues related to the taxation of machinery and equipment assessment on electric power property and take steps to eliminate the current inequities.**
9. **Changes should be made to the Alberta Royalty Tax Credit program so that benefits go primarily to smaller companies. Benefits should be phased out starting at $3 million in royalties paid and no benefits should be available to companies paying more than $6 million in royalties. Over the longer term, the program should be reviewed with the ultimate goal of phasing it out.**
10. **Alberta should maintain a low rate, broad based tax system, rather than introduce tax credits.**

Changes should be made to capital gains taxes to improve Alberta's competitive position.

11. **Alberta's capital gains inclusion rate should be reduced from 66.7% to 50% for corporate income tax purposes. A similar reduction to personal income tax on capital gains is recommended.**

EXPECTED IMPACT: ALBERTA'S TAX COMPETITIVENESS IMPROVES AND ALBERTANS BENEFIT.

The Committee looked at the impact of its recommendations on Alberta's financial picture, economy and competitive position.

Financially, the proposed cuts in business taxes would reduce revenues to the province by an estimated $741 million a year (based on the latest revenue forecasts included in the government's first quarter update for 2000-01), excluding any offsetting estimate of the positive impact of stimulating economic growth in the province. This is less than two thirds of the reduction in personal income tax revenue recently announced by the provincial government. It is sustainable based on current forecasts, and it is money well spent to improve Alberta's competitive position, ensuring Albertans will enjoy the prosperity which results from a healthy business environment.

Highlights of the economic impact include:

Alberta's competitiveness improves.

- ✓ Reducing Alberta's corporate income taxes would significantly improve the competitiveness of the province's business climate. For example, in comparison with 11 other cities across Canada and in the United States, Edmonton and Calgary currently rank between 4th and 8th depending on the specific type of business involved. These comparisons take into account full implementation of Ontario's planned reductions in corporate income taxes. Reducing Alberta's corporate income tax rates to 8% dramatically shifts our competitiveness rankings upwards. Edmonton and Calgary rise to 1st and 2nd in all sectors except one, where they rise to 2nd and 3rd.

- ✓ Short term economic benefits would include:
  - ✓ The level of Alberta's real GDP is up by 1.5% by 2006
  - ✓ An additional increase of 2.3% in real business investment
  - ✓ An increase in productivity of 1.2%
  - ✓ Lower prices for consumers
  - ✓ Lower costs to business.

A growing economy means better jobs for Albertans.

Lower corporate income taxes means Alberta's economy would grow by $1.7 billion.

These short run benefits are immediate and they are not insignificant. An additional 1.5% increase in real GDP amounts to $1.7 billion added to the province's economy or $520 per person. This extra income is generated not just for one year, but each and every year, forever.

- ✓ Comparisons of marginal effective tax rates show that Alberta would have the most competitive business tax regime in the country and be able to compete with leading countries around the world.

- ✓ The real benefits of the tax changes would take place in the longer term when:
  - ✓ The costs of reducing corporate income tax would be offset by additional economic activity and an expanded tax base in the province.
  - ✓ Alberta's competitive position would be dramatically improved. With lower taxes, Alberta would be able to attract and retain investment and growth in the economy. New business ventures and highly skilled people would see Alberta as a very attractive place to locate, expand business operations and invest.
  - ✓ Albertans would benefit directly from lower corporate income taxes. Those benefits would come through higher quality jobs and higher wages, as well as enhanced productivity, lower prices, increased economic activity, more investment to expand current businesses in the province, and a greater incentive to invest in start-up and emerging industries.

> *"Business tax cuts are not just good for business – they are good for all of us who call Alberta home."*
>
> **Canadian Taxpayers Federation**

CONCLUSION: ALBERTA MUST SET ITS SIGHTS WELL BEYOND THE CANADIAN BORDERS.

> *Alberta needs to compete in the global marketplace.*

Albertans pride themselves on a combination of low taxes and a number of positive advantages unique to the province. But Alberta's tax advantage is being eroded both in Canada and in relation to other jurisdictions around the world. Ontario recently announced substantial reductions to corporate income tax rates, lowering their basic rate to 8% over the next five years. While the fact that the biggest province in the country is planning a substantial business tax reduction is significant, Alberta must set its sights well beyond the Canadian borders. In particular, Alberta has to target markets in the Pacific Northwest, other US states and key markets around the world. To continue to improve Alberta's quality of life and provide opportunities for young Albertans to stay in the province and build their futures, we need to be able to compete in a global marketplace. Making significant reductions to Alberta's corporate income tax rates sends a clear signal that this is the place to invest - Alberta is the place to do business.

Introduction

In February 2000, the provincial government launched a review of Alberta's business taxes. This step followed the government's decision to move to a new, single rate provincial personal income tax system designed to lower taxes for all Albertans, encourage economic growth and enhance Alberta's competitive position. The "deficit elimination" surtax has been removed. On January 1, 2001, the other "deficit elimination tax" will end. Following the recommendations of the Alberta Tax Review Committee, a new, single rate personal income tax system will be implemented. This new approach to taxation at the personal level marks a bold new step on the part of Albertans, maintaining Alberta's lead as the lowest taxed province in the country.

With a new provincial personal income tax system designed and ready to be implemented, government's attention turned to the business side of Alberta's overall tax system.

The Business Tax Review Committee was established with a mandate to examine the impact of business taxes on Alberta's economic and business climate and on our international competitiveness, to consider the impact of technology on business and commerce, and to make recommendations to improve Alberta's competitive position. The objective is to ensure that Alberta's business tax system is competitive but, at the same time, continues to provide a solid revenue base to help support Alberta's priority programs.

Specifically, the Business Tax Review Committee was asked to examine the level and mix of taxes paid or collected by Alberta businesses including the following:

- ✓ Corporate income tax – including the province's general rate of corporate income tax, the manufacturing and processing rate, the small business rate and provincial tax credits, including the Alberta Royalty Tax Credit
- ✓ Capital tax on financial institutions
- ✓ Insurance corporations tax
- ✓ Hotel room tax
- ✓ Fuel tax
- ✓ Provincial non-residential education property tax
- ✓ Capital gains.

As part of its review, the Committee:

- ✓ Examined current business taxes and issues identified for each of the different taxes
- ✓ Reviewed trends in business taxes across Canada and around the world
- ✓ Reviewed business trends in the future including e-commerce and its impact on tax issues

- ✓ Assessed Alberta’s competitive position in relation to other jurisdictions across Canada and around the world
- ✓ Advertised widely in all major daily and weekly newspapers across the province, highlighting the focus of the business tax review and encouraging individuals and businesses to make submissions to the Committee
- ✓ Prepared a background information package, posted it on Alberta Treasury's website, and responded to inquiries by mail, phone and e-mail
- ✓ Provided information packages to a variety of stakeholders, interested groups and individuals
- ✓ Received and reviewed 46 submissions (not including over 500 form letters from small business groups)
- ✓ Heard presentations from individuals and organizations after inviting everyone who made a submission to make a presentation and respond to questions from Committee members
- ✓ Assessed the impact of various options on Alberta’s economy and the revenues available to support government programs and services
- ✓ Prepared recommendations and suggested priorities for consideration by the provincial government.

The following sections summarize the wealth of information and ideas reviewed by the Committee and present the Committee’s recommendations for changes to business taxes in Alberta.

Who pays what?
Alberta's current business tax environment

WHY TAX BUSINESSES?

Let's start with a basic question – Why tax businesses?

Taxes are the primary source of revenues for the provincial government. They support programs and services Albertans value highly – our education system, the health system, roads and highways, a high level of innovation and science, and care for children in need.

Businesses are taxed for a number of reasons. First, taxing business recognizes the benefits they receive from Alberta programs and services, whether that includes a highly skilled, well educated and healthy workforce, an efficient transportation and telecommunications network, safe communities, or the overall quality of life in the province. Taxes also reflect the fact that some businesses create costs through their operations, through greater use of roads and highways, the need for environmental protection, or demands on services in communities across the province. Business taxes ensure that people cannot avoid paying taxes by "parking" revenue in a business rather than paying personal income taxes. They also ensure that government gets a share of the profits made by businesses operating in Alberta, but owned by individuals outside the province or country.

Business taxes are one component of Alberta's mix of taxes. Without the revenue generated from business taxes, individual Albertans and families would face a significantly higher personal income tax burden. At the same time, high rates of corporate taxes are a disincentive for businesses to locate, operate and grow within the province. In increasingly competitive global markets, capital is highly mobile and investors will quickly move their investments to locations where they get the best return. Provinces like ours need to be able to compete not only with other provinces, but also with leading countries around the world. Both the level and mix of taxes have to be competitive so that Alberta can continue to attract business investment, economic growth, and jobs for Albertans.

It's also important to remember that, ultimately, businesses don't pay tax – people do. Taxes add to the cost of doing business. Those costs lead to lower wages, higher prices and/or lower benefits for shareholders and investors (including pension funds). If we lower taxes for businesses, the benefits go to all Albertans in the form of more jobs, more competitive businesses, higher wages, lower prices, and a higher standard of living.

"So, in the end, everyone pays business taxes. Corporate income tax, capital taxes, business property taxes, and every other tax paid by Alberta companies are absorbed by the province's citizens."

Canadian Taxpayers Federation

WHO PAYS WHAT?

The following is a summary of the different types of taxes paid or collected by businesses in the province. In addition to these provincial taxes, Alberta businesses also pay taxes to the federal government and to municipal governments, as well as to other provinces if they operate outside of Alberta.

PROVINCIAL CORPORATE INCOME TAX

Corporate income tax has been levied by the province since the 1940s. All incorporated businesses with a permanent establishment (e.g., office, mine, farm, oil well, etc.) in Alberta at any time in a tax year pay income tax on the portion of their taxable income that is allocated to Alberta. Although Alberta is one of three provinces that levies and administers its own corporate income tax, the Alberta calculation of taxable income closely parallels the federal calculation. Alberta businesses may claim different amounts of specific deductions for federal and provincial purposes. Alberta's general corporate income tax rate is 15.5%, the rate on manufacturing and processing profits not eligible for the small business deduction is 14.5%, and the small business rate is 6%.

For corporations operating both in Alberta and in other provinces, taxable income is allocated among the provinces where the corporation has a permanent establishment according to an allocation formula based on the province's share of the corporation's total payroll costs and gross revenues.

Alberta is one of three provinces that does not levy a capital tax on large corporations in addition to corporate income taxes. However, capital taxes paid by corporations to other provinces are deductible for Alberta corporate income tax purposes.

Small Business Deduction
Corporations which are Canadian-controlled private corporations, including professional corporations, throughout a full taxation year, may claim the small business deduction of 9.5%, reducing the provincial tax rate to 6% on the first $200,000 of active business income (i.e. non-investment income) from a business carried on in Canada. The Alberta small business deduction is structured in the same manner as the federal small business deduction. There is no cap on how much total lifetime income is eligible for the small business deduction and no set number of years for which the deduction may be claimed. Since 1994, however, the deduction has been limited to smaller and medium sized companies. The deduction begins to be phased out for companies with $10 million of "taxable capital," as defined for the federal Large Corporations Tax, and is fully phased out at $15 million of taxable capital.

Manufacturing and Processing Profits Deduction (M&P)
The Alberta M&P deduction parallels the design of the federal deduction. The 1% deduction may be claimed in respect of Alberta manufacturing and processing profits which do not qualify for the small business deduction. Generally speaking, activities which include making, assembling, shaping or

forming something would qualify as "manufacturing", while preparation or physically altering something would be "processing". The 2000 federal budget announced that their preferential treatment of manufacturing and processing will end in 2005 in conjunction with the planned reductions in the general corporate income tax rate.

Alberta Royalty Tax Deduction

Crown royalties are paid by companies to the provincial government for the right to extract natural resources owned by Albertans. They have not been deductible in calculating taxable income for federal tax purposes since the 1970s. Instead, companies may deduct a "resource allowance", an amount equal to 25% of their resource profits. Alberta did not adopt this federal policy. If royalties exceed the resource allowance, companies may claim an additional deduction, equal to the difference between crown royalties paid and the resource allowance claimed. This makes royalties fully deductible for Alberta purposes.

Alberta Royalty Tax Credit (ARTC)

The ARTC is a royalty program administered through the income tax system. It returns a percentage of Alberta crown royalties paid by an oil or gas producer in a year on conventional oil and gas production, up to a maximum limit.

Both the credit rate and the maximum credit have varied over time. The rate has been as low as 25% and as high as 95% of eligible royalties. The maximum credit has been as low as $1 million and as high as $4 million. The current rate varies between 25% and 75% and reflects fluctuations in quarterly oil and gas prices. Maximum benefits for a company or an associated group of companies are currently equal to the product of the ARTC rate for the taxation year and the lesser of Alberta crown royalties, or $2 million. The maximum benefit receivable under the program ranges from $500,000 to $1.5 million, depending on the prices of oil and gas.

Capital Gains Taxation

There has been much concern expressed about the level of personal income tax paid on capital gains. The Canadian tax system has always taxed capital gains less than other income. The question is how much less. The effective rate of tax on capital gains is affected by both the inclusion percentage and the statutory rate of tax. The 2000 federal budget reduced the inclusion rate for capital gains from 75% to 66.7%. Ontario's 2000 budget announced plans to reduce the province's inclusion rate to 50%.

The tax system should co-ordinate the treatment of capital gains earned by individuals and those earned by corporations. Although Alberta administers its own corporate income tax system, the federal government administers the province's personal income tax system.

FINANCIAL INSTITUTIONS CAPITAL TAX

The capital tax on financial institutions (banks, trust and loan corporations and credit unions) was introduced to offset the loss of Alberta corporate income tax revenue resulting from deductibility of capital taxes paid in other provinces. It became effective April 1, 1990. The tax is calculated on taxable paid-up capital employed in Alberta by financial institutions with a permanent establishment in the province at any time in the year. In 1999, Alberta reduced the rate of tax and broadened the tax base by harmonizing with the federal large corporations capital tax base, including incorporating long term debt into the base to reflect its increasing significance in capitalizing companies. Taxable paid-up capital now includes capital stock, retained earnings, long-term debt that is not due for at least 5 years, and other reserves. The tax rate dropped from 2% of taxable capital allocated to Alberta to 0.7% on the first $400 million of taxable paid-up capital and 1.0% on the remainder. The tax payable by a credit union remains capped at $100.

INSURANCE CORPORATIONS TAX

All provinces impose taxes based on insurance premiums. Some form of insurance premiums tax has been in place in Alberta since 1907. Since 1987, the rate of tax has been 2% on the amount of premiums for accident, sickness and life insurance and 3% on premiums for all other insurance. The tax does not apply to annuity contracts held by life insurers, marine insurance, reinsurance premiums received by a re-insurer, or Blue Cross coverage.

FUEL TAX

The Alberta Fuel Tax Act imposes a direct tax on individuals and businesses for the purchase in Alberta of all unmarked fuel, except where the fuel is delivered and consumed outside Alberta. Fuel used for agricultural purposes, fuel used off-road for commercial purposes, natural gas and ethanol are tax-free. The current tax rates are 9 cents a litre for gasoline and diesel and 6.5 cents a litre for propane. The rates for railway and aviation fuel are 3 cents a litre and 1.5 cents a litre respectively.

Tax Exempt Fuel Use (TEFU)
Alberta provides tax exemptions and rebates on fuel used off-road for commercial purposes, in order to remove the fuel tax on inputs to primary resource industries, such as forestry, mining, oil and gas, and well servicing, which use large amounts of fuel off-road. TEFU is not limited to these industries. TEFU currently provides benefits of about $120 million per year, including approximately $45 million in the form of rebates.

Alberta Farm Fuel Benefit Program
This two-part program reduces the cost of fuel use in farm vehicles for Alberta farmers. It provides an exemption from the fuel tax of 9 cents per litre on both diesel and gasoline and 6.5 cents per litre on propane. Under the Farm Fuel Distribution Allowance, farmers also receive a grant of 6 cents per litre on diesel fuel used for farm equipment. Alberta farmers use about 550 million litres of diesel and 400 million litres of gasoline per year. The program provides benefits of about $120 million per year.

HOTEL ROOM TAX

The Alberta hotel room tax was introduced in 1987. It imposes a direct 5% tax on the purchase price paid by the consumer, both for business and personal use, for temporary accommodation in Alberta. It is collected and remitted by the providers of temporary accommodation. The tax does not apply to rooms occupied continuously for 28 days or more, or to establishments with fewer than 4 bedrooms for rent.

Most jurisdictions impose taxes on temporary accommodations. These taxes usually take the form of a specific hotel room tax, a general sales tax, or a combination of both. The average combined federal/state or provincial/local rate of taxation on hotel accommodation in North America is about 12%. In 1998, about 46% of person nights in Alberta hotels and motels were by non-Albertans. While out of province visitors accounted for 46% of all occupied room nights, they probably accounted for 55 – 60% of the provincial hotel room tax collected in 1998 because they generally rent more expensive accommodations.

NON-RESIDENTIAL EDUCATION PROPERTY TAXES

Property taxes have been levied in Alberta since 1905. Property taxes are an important source of funding both for municipalities and for basic education. The province requisitions municipalities for the property tax portion of basic education funding (both residential/farm and non-residential property), and provides additional education funding out of general revenues. Non-residential property owners can deduct education property taxes for corporate income tax purposes. In 1994-95, about 50% of basic education funding came from property tax. This year, less than 40% will come from property taxes, and by 2002-03, it is estimated that only 36% of basic education funding will be raised through the property taxes.

There are several categories of non-residential properties. The assessment of farm and industrial properties is the subject of reviews led by Alberta Municipal Affairs. The Business Tax Review Committee will not be looking into these assessment issues. There is also a committee of Members of the Legislative Assembly considering the education property tax system. The Business Tax Review Committee focused its examination of non-residential education property tax on the general issues of competitiveness, including the relative share of property tax in the business tax mix, differences between residential and non-residential education property tax rates, and issues related to machinery and equipment taxes on linear property such as electric power and pipelines.

HOW MUCH REVENUE DO THESE TAXES RAISE?

The provincial government's 2000-01 budget estimates that the range of taxes included in this review will generate a total of close to $3.2 billion.

A breakdown of the specific taxes and how much money they generate is included in the following chart.

TABLE 1 2000-01 REVENUE FROM TAX SOURCES

(millions of dollars)

Tax	Total Revenue	2000 Tax Rate[a]	Annual Revenue per Unit of Tax
1. Personal Income Tax[b]	**4,713**		
Apr. 2000 - Dec. 2000			
Basic Rate	3,348	44.0%	101.5 per point
Flat Tax	244	0.5%	325.5 per half point
Selective Tax Reduction	(64)		(difficult to express in per unit terms)
Jan. 2001 - Mar. 2001			
Single Rate on Taxable Income	1,185	11.0%	431.0 per point
2. Corporate Income Tax	**1,896**		
General Rate	1,340	15.5%	86.5 per point
M&P Rate	351	14.5%	24.0 per point
Small Business Rate	205	6.0%	34.0 per point
3. Fuel Tax	**559**		
Gasoline and Diesel	526	9¢/litre	58.5 per ¢/litre
Railway	7	3¢/litre	2.5 per ¢/litre
Aviation	12	1.5¢/litre	8.0 per ¢/litre
Propane	14	6.5¢/litre	2.0 per ¢/litre
4. Tobacco Tax	**355**	$14/carton	25.5 per $/carton
5. School Property Tax	**1,157**		
Residential/Farm Property	649	$6.77/$1,000 of assessment	96.0 per $/$1,000 of assessment
Non-Residential	508	$9.94/$1,000 of assessment	51.0 per $/$1,000 of assessment
6. Freehold Mineral Rights Tax	**135**		(difficult to express in per unit terms)
7. Insurance Corporations Tax	**127**		
Life, Accident, Sickness	34	2% of premium	17.0 per point
Other	93	3% of premium	31.0 per point
8. Financial Institutions Capital Tax	**38**		
First $400 million of Taxable Capital	5	0.7%	7.0 per point
Over $400 million of Taxable Capital	33	1.0%	33.0 per point
9. Hotel Room Tax	**47**	5.0%	9.5 per point

[a] Except for personal income tax which shows both the 2000 rate on basic federal tax and the 2001 rate on taxable income.

[b] The basic rate is a percentage of basic federal tax. The flat tax is 0.5% of taxable income.

HOW MUCH REVENUE IS NEEDED TO SUPPORT GOVERNMENT PROGRAMS AND SERVICES?

As noted earlier, government depends on taxes as the primary way of paying for essential programs and services. In the early to mid 1990s, the Alberta government took deliberate steps to eliminate the deficit, balance the budget and pay down the debt. Since that time, pressures for increased spending have mounted.

The 2000-01 budget calls for total spending in the order of $17.7 billion. That's an increase in spending of almost 16% in the four years since the budget was balanced in 1996-97. Projections are for spending to increase to just under $18 billion by 2002-03. Alberta's population is increasing and government continues to face pressures for increased spending in health, in education, for infrastructure, and for a wide range of other important programs.

At the same time, the province also is taking significant steps to pay down Alberta's accumulated debt of $12.5 billion. By repaying debt over the past six years, the province has been able to free up $845 million in savings that otherwise would have gone to pay interest and now can be used to support either important spending pressures or reductions in the taxes Albertans pay. However, the province still expects to spend about $900 million this year (2000-01) to pay interest on the remaining debt. By continuing to reduce the debt, the province can save significant funds to help sustain future spending priorities and reductions in taxes.

In addition to taxes, the province is also heavily dependent on oil and gas resources as a source of revenue. Non-renewable resource revenues totalled $4.65 billion in 1999-2000. The price of oil and gas is set by international markets, leaving the province vulnerable to sharp decreases in prices. A one dollar (West Texas Intermediate US$/barrel) drop in the price of oil means a loss of $150 million to the province; a ten cent (Canadian $/thousand cubic feet (mcf)) drop in the price of gas means a $154 million decrease in revenues. The flip side is that during times when prices for both oil and gas have increased considerably, the province stands to gain substantial additional revenues.

Predicting future prices for oil and gas is risky at best. Analysts vary considerably in terms of their predictions about future prices, ranging from those who expect prices to remain consistently high to those who foresee a potential downturn in coming years. The provincial government's 2000-01 budget is based on oil at $19 (US) a barrel for 2000-01, dropping to $18 (US) a barrel by 2002-03. The price of gas is estimated at $2.50 Canadian/mcf for 2000-01, dropping to $2.35 Canadian/mcf by 2002-03.

Government faces competing demands for spending on programs, reducing debt and reducing taxes.

In looking at the potential for decreasing Alberta business taxes, the demands for increased spending, the impact of reductions in personal income taxes, the volatility of Alberta's revenues from oil and gas, and the money saved by paying down Alberta's debt all have to be kept in mind. Sustainability is a critical issue. While significant tax decreases would provide clear benefits to

Sustainability and competitiveness are linked.

the province and to Albertans, that has to be balanced against the need for the tax system to provide sufficient revenues to support necessary programs and services. Continuing to pay down Alberta's debt will free up revenues that otherwise would have been needed for interest payments. It's also important to remember that sustainability and competitiveness are linked. If Alberta does not remain competitive and able to attract investment and business growth, we will not be able to generate the revenues necessary to sustain Alberta's economy and pay for government programs and services.

Both the business community, and the province as a whole, benefit from a stable and predictable tax system. There is little value in substantially lowering business taxes then having to sharply increase them again because the province does not have sufficient resources to support essential services. At the same time, if no action is taken to maintain Alberta's competitive position, especially in the face of growing global competition for investment, the province risks getting left behind, losing out on the potential for new investment, and losing jobs and business opportunities to other jurisdictions.

In making its recommendations, the Committee carefully considered the potential impact on both the future growth of Alberta's economy and on the province's overall revenue picture. That assessment is included in the last section of this report.

WHAT ARE THE GENERAL ISSUES?

As part of its review, the Committee looked at a number of issues related to specific taxes. However, there are a number of important issues that cut across the entire business tax system.

Consequently, the Committee considered the following questions:

- ✓ Is the level of taxation paid by business in Alberta competitive?
- ✓ Is the mix of taxes appropriate? What impact could e-commerce have on Alberta's tax mix?
- ✓ Does the mix of taxes distribute the burden of taxation efficiently and fairly across different business sectors?
- ✓ What mix of taxes will best promote economic growth? What is the best mix of taxes based on consumption (fuel, hotel or insurance premiums), on wealth (property or capital), and on income (corporate income taxes)?
- ✓ Should the province consider withdrawing from some tax fields and increasing other taxes to make up for the loss of revenue?
- ✓ Should the province stay with a broad-based, low-rate tax system for all sectors or consider targeted tax programs for certain industries?

How does Alberta measure up?

Alberta's business tax advantage is being eroded.

The key question is: how does Alberta measure up? Are the level and mix of taxes in Alberta competitive with other jurisdictions both across Canada and around the world? While tax comparisons are sometimes difficult to make because of the variety of factors and detailed provisions involved, the following section provides some key points about Alberta’s and Canada’s competitive positions as well as recent trends in taxation policies across Canada and in other jurisdictions.

ALBERTA AND THE OTHER CANADIAN PROVINCES

Albertans have taken great pride in paying the lowest overall taxes in Canada. Changes on the personal side combined with the absence of a sales tax means that individual Albertans and families continue to pay the lowest taxes in Canada. However, with steps being taken in other provinces, states and countries, Alberta’s business tax advantage is being eroded.

TABLE 2 2000 COMPARISON OF PROVINCIAL BUSINESS TAX RATES

(known as of May 10, 2000)

	AB	BC	SK	MN	ON	QC	NB	NS	PE	NF
Corporate Income Tax										
Small Business Rate	6.00%	4.75%[1]	8.00%	7.00%	7.00%[2]	9.04%[3]	4.50%	5.00%	7.50%	5.00%
M&P Rate	14.50%	-	10%-17%	-	12.50%[4]	-	-	-	7.50%	5.00%
General Rate	15.50%	16.50%	17.00%	17.00%	14.50%[5]	9.04%[3]	17.00%	16.00%	16.00%	14.00%
Capital Tax[6]										
General (maximum %)	-	0.30%	0.60%	0.50%	0.30%	0.64%	0.30%	0.25%	-	-
On Financial Institutions	1.0%	3.0%	3.25%	3.0%	0.90%	1.55%	3.0%	3.0%	3.0%	4.0%
Employer Payroll Tax	-	-	-	2.15%	1.95%	4.26%	-	-	-	2.00%
Insurance Premiums Tax										
Life, Accident, Sickness	2.00%	2.00%	3.00%	2.00%	2.00%	2.00%	2.00%	3.00%	3.50%	4.00%
Other (property)	3.00%	4.00%	4.00%	3.00%	3.50%	3.00%	3.00%	4.00%	3.50%	4.00%
Fuel Tax[7, 8]										
Gasoline (¢/Litre)	9.0	11.0	15.0	11.5	14.7	15.2	10.7	13.5	13.0	16.5
Diesel (¢/Litre)	9.0	11.5	15.0	10.9	14.3	20.2	13.7	15.4	13.5	16.5
Aviation fuel (¢/Litre)	1.5	5.0/2.0[9]	3.5	3.2[10]	2.7	3.0	2.5	0.9	0.7	0.7
Sales Tax[11]	0.0%	7.0%	6.0%	7.0%	8.0%	7.5%	8.0%	8.0%	10.0%	8.0%
Hotel Room Tax	5.00%	8.00%	6.00%	7.00%	5.00%	7.50%	8.00%	8.00%	10.00%	8.00%

[1] Effective July, 2000.
[2] Effective May 2, 2000.
[3] Quebec’s rate including the Youth Fund surtax (effective March 15, 2000) equals: 8.9% X (1+ 1.6%) = 9.04%
[4] Effective May 2, 2000.
[5] Effective May 2, 2000.
[6] Rates reflect the maximum applicable to most corporations. Many provinces have a lower rate up to a certain threshold (e.g., in Alberta the financial institutions' rate is 0.7% up to $400 million in paid-up capital) and may exempt certain types of financial institutions (e.g., credit unions pay a flat rate of $100 in Alberta and are exempt in Ontario). Quebec's rate on financial institutions includes the basic rate of 1.28%, a compensatory addition of 0.25%, and the Youth Fund surtax of 1.6%.
[7] Quebec, New Brunswick, Nova Scotia and Newfoundland also apply sales tax on gas and diesel purchases.
[8] Gasoline and diesel fuels are subject to a transit levy of 4 cents per litre in Vancouver and 1.5 cents in Victoria and Montreal.
[9] First rate is domestic, second is international. BC is only province that differentiates between the two.
[10] Retail sales tax is applied on top of this.
[11] Quebec, New Brunswick, Nova Scotia and Newfoundland’s sales taxes are partially harmonized with federal GST.

- ✓ On the corporate income tax side, Alberta's general tax rate of 15.5% is lower than all provinces except Ontario, Quebec and Newfoundland. Ontario recently announced plans to reduce their corporate income tax rates from 14.5% to 8% by 2006.
- ✓ Alberta's small business tax rate of 6% is about the middle of the pack in comparison with other provinces. British Columbia has the lowest rate at 4.75% (effective July 1, 2000) followed by Nova Scotia and Newfoundland at 5%. Ontario plans to reduce its small business rate to 4% by 2006. Quebec's tax rate of 9.04% applies to all businesses, regardless of their size.
- ✓ Alberta's manufacturing and processing rate of 14.5% compares favourably with most other provinces. However, Ontario's rate is currently 12.5%, but is scheduled to drop to 8%. Saskatchewan has a manufacturing and processing rate of 17%, but reduces that rate to 10% as the share of a corporation's national manufacturing and processing income allocated to Saskatchewan increases. Five provinces do not have a separate rate for manufacturing and processing – the rates are the same as the general rate.
- ✓ Alberta is one of three provinces that does not have a general capital tax.
- ✓ Alberta's capital tax rate on financial institutions is lower than all provinces except Ontario. However, due to differences in the base between the provinces, the rates are not directly comparable.
- ✓ In terms of fuel taxes, Alberta's gasoline tax of 9 cents a litre is the lowest in the country and our rates are competitive with neighbouring US states. Alberta's current rate of aviation fuel tax is competitive with other provinces. Alberta's tax rate for railway diesel fuel is tied for the lowest in Canada but is higher than neighbouring states.
- ✓ Alberta is the only province with no provincial sales tax. Although several provinces provide rebates for sales taxes paid by businesses, the rebate programs do not offset the full impact of sales taxes, leaving most businesses in those provinces to pay some level of sales tax.
- ✓ Alberta and Saskatchewan are the only provinces with no provincial tax credits dedicated to encouraging investment in research and development and knowledge-based industries.
- ✓ Alberta is one of six provinces that does not levy a general payroll tax. Manitoba, Ontario, Quebec and Newfoundland all have general payroll taxes.

"While two thirds thought Alberta's business tax regime is competitive in our own country, almost 40% have considered leaving to find a more favourable business climate. Just one in ten said we are competitive in North America and even fewer said we are competitive globally."

Results of Calgary Chamber of Commerce Business Tax survey

"Although competitive on a national scale, Alberta's taxation of business income is simply too high to properly position the provincial economy as a serious player in the global marketplace."

Al Petersen, President, Alberta Chambers of Commerce

ALBERTA AND OTHER MAJOR JURISDICTIONS

As the province's most recent budget suggests, "Having the lowest overall business taxes in Canada is not sufficient in a global economy. Our tax regime must be internationally competitive as well."

While it is difficult to compare corporate income tax rates among different countries and states, studies and comparisons show that Alberta and the rest of Canada are falling behind as other jurisdictions in the US and around the world move to substantially lower corporate income tax rates. Alberta's corporate income tax as a percentage of GDP is significantly higher than selected US states such as Indiana, Texas and California. Alberta's combined federal and provincial general corporate income tax rate is higher than the average US federal/state combined rate. However, our combined federal/ provincial rates for manufacturing and processing and small business are lower than the comparable average combined US rates.

Appendix 2 provides a more detailed comparison of Alberta's corporate income tax rates with other provinces and US states.

An assessment by Jack Mintz, CEO of the C.D. Howe Institute, compares Alberta's corporate income tax rates and the effective tax rate on capital investment with Ontario and leading countries including the US, United Kingdom, Germany, Sweden and Ireland. Alberta's corporate income tax rates are higher than all jurisdictions except Ontario, although the comparison does not take into account Ontario's plans for corporate income tax reductions.

Although a comparison of Alberta's statutory corporate income tax rates with other jurisdictions is useful, a more revealing way of assessing Alberta's business tax competitiveness is to look at marginal effective tax rates (METRs) on corporate capital. By taxing corporate income, the corporate income tax taxes the return to capital and can thus be viewed as a tax on capital itself. The METR is a simple summary measure of the impact of the tax system on the return to investing in corporate capital. In simple terms, it measures the percentage difference between the before- and after-tax rate of return on an additional or incremental, capital project. METRs take into account not only differences in statutory income tax rates, but also differences in the tax base due to different write-off rates and deductions, differences in tax credits, and the presence of some other taxes such as direct taxes on capital levied by other provinces. The latter is particularly important for Alberta because most other provinces levy capital taxes that are deductible for purposes of calculating corporate taxable income in Alberta. A more complete description of the METR approach is provided in Appendix 3.

Using the METR approach, Alberta's current effective tax rate on investment compares favourably with Ontario and Quebec, but is higher than the US (except for manufacturing) and all other countries included in the comparison. It should be noted that property taxes are not included in the METR analysis.

TABLE 3 MARGINAL EFFECTIVE TAX RATES - 2000 (PERCENT)

Alberta and selected provinces and G7 countries

	Alberta	Ontario	Quebec	UK	US	Germany	France	Italy	Japan
Manufacturing	19.9	22.1	22.5	17.2	23.6	19.8	22.7	18.1	22.6
Services	29.1	31.5	29.5	17.2	24.8	19.6	25.3	21.4	24.0

To provide a more detailed comparison of Alberta's taxes and cost of doing business with other leading competitors, Alberta Economic Development Authority had previously commissioned KPMG to develop a model that compares actual costs and taxes paid by specific businesses. The model examines business costs, including taxes, for new business operations in six cities in Canada (Calgary, Edmonton, Montreal, Ottawa, Toronto, and Vancouver) and seven in the United States (Boise, Boston, Colorado Springs, Minneapolis, Phoenix, San Jose and Seattle). The model examined eight different industry sectors.

The analysis focuses on the competitiveness of each location based on the relative tax burden and benefit/incentive offsets that a company in each industry would face in each of the 13 cities. This analysis treats all locations as being equal in all other costs so that the differences in government taxes, charges, and fiscal and incentive programs can be examined in isolation.

Edmonton and Calgary rank 4th to 8th in comparison with selected cities in Canada the US.

Business taxes include income, capital, payroll, sales, and property taxes. Government fiscal and incentive programs such as income tax credits, property tax reductions, training rebates and incentives, and capital tax reductions, also are taken into account.

Table 4 shows that the business competitive ranking for Edmonton and Calgary ranges from 4th to 8th out of the 13 cities examined. Rankings for Ottawa and Toronto are based on full implementation of Ontario's announced corporate income tax cuts and show the impact of those reductions on their competitive position. Montreal consistently ranks ahead of Edmonton and Calgary due to Quebec's lower income tax rate and the extensive use of tax incentives such as research and development tax credits. US cities such as Seattle, Colorado Springs and Minneapolis rank ahead of Edmonton and Calgary for the computer software industry.

TABLE 4 RANKING OF ALBERTA'S CURRENT TAX COMPETITIVENESS

(Based on Ontario's announced reduction to 8%)

"Alberta must create an even better tax environment than other jurisdictions, one that attracts and rewards capital. Alberta will only retain and attract skilled workers if there is first a strong, vibrant and exciting business environment."

Calgary Chamber of Commerce

	Electronics	Food Processing	Medical Devices	Metal Fabrication	Pharmaceuticals	Plastics Manufacturing	Software	Telecom Equipment
Calgary	5	6	5	5	5	6	7	5
Edmonton	4	4	4	4	4	4	8	4
Montreal	2	1	1	1	1	1	1	1
Ottawa	3	3	3	3	3	3	3	3
Toronto	1	2	2	2	2	2	2	2
Vancouver	10	10	9	10	7	10	13	7
Boise	9	9	10	9	9	8	9	9
Boston	13	13	12	13	11	13	11	12
Colorado Springs	8	5	8	7	8	7	6	8
Minneapolis	7	8	6	8	6	9	5	6
Phoenix	11	11	11	11	13	11	10	11
San Jose	12	12	13	12	12	12	12	13
Seattle	6	7	7	6	10	5	4	10

CANADA IN COMPARISON WITH OTHER JURISDICTIONS

All G-7 countries except Canada and the US are reducing business taxes.

A number of studies point to problems in Canada's competitive position in comparison with the US and other major countries around the world. Since 1996, all nations in the G-7, except Canada and the US, have reduced, or announced future reductions to, business taxes.

An assessment by Nesbitt Burns of the tax changes announced in the federal government's February 2000 budget indicates that Canada's combined general federal/provincial corporate income tax rate is almost 45% - the highest of any major industrialized country. The average corporate income tax rate for OECD countries is 35% (based on current rates and not including plans in many countries to lower rates). They suggest that "tax-cut fever appears to be intensifying" all over the world.[1]

Nesbitt Burns also reported the following changes in corporate income tax rates in leading industrialized countries:

- ✓ Britain - reduced to 30%
- ✓ Germany's – to be cut from 52% to 35%
- ✓ Japan – cut from 46% to 42%
- ✓ Australia – reduced to 30%
- ✓ Switzerland – reduced to 25%
- ✓ Sweden – reduced to 28%
- ✓ Ireland – to be reduced from 24% to 12.5% by 2003.

In comparison, France's corporate income tax rate is 37%, the US is at 40% and Italy is at 41%.

With changes announced in the most recent federal government budget, Canada's combined rate will drop to about 37% over the next five years. Further reductions in other countries' rates can be expected over the same period.

In addition to corporate income tax rates, Nesbitt Burns also suggests that Canada is not competitive on commercial property taxes. Canada's commercial property taxes account for 18% of all business tax revenues in Canada and they are among the highest in the world.

Other groups also warn of problems with Canada's competitive position in relation to other countries around the world. Economists suggest that high corporate income taxes reduce investment and income, discourage savings and have a negative impact on risk-taking.[2] Reports from both the Canadian Chamber of Commerce[3] and Industry Canada[4] indicate that Canada's standard of living has fallen behind that of the United States.

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1 "Congratulations Mr. Martin – A better than expected budget", Nesbitt Burns website, February 28, 2000
2 Broadway, Robin W. and Harry M. Kitchen, 1999, "Canadian Tax Policy", Toronto, Canadian Tax Foundation
3 Canadian Chamber of Commerce, 2000, "An Economic Vision for a Strong Canada: Creating an Agenda for Change"
4 Industry Canada, 2000, "A Regional Perspective on the Canada-U.S. Standard of Living Comparison"

Mintz suggests that, "Without doubt, federal and provincial corporate income tax policies will create a significant barrier to economic growth in the future if they remain in place as today."[5] He indicates that Canada imposes the highest effective tax rate on capital invested in service industries and one of the highest rates on manufacturing compared to major OECD countries where significant tax reforms are underway. Mintz also states that:

High corporate income tax rates reduce investment and the incomes of workers.

- ✓ High corporate income tax rates not only reduce capital investment but also reduce the incomes of Canadian workers. High effective tax rates on capital affect companies' willingness to invest in Canada compared with other jurisdictions. With less capital investment, businesses will hire fewer workers and pay lower salaries.
- ✓ The tax system has a negative impact on entrepreneurship and risk taking. Taxes on profits and capital gains earned as a result of risky investments reduce the incentive for taking the risk.
- ✓ In terms of encouraging innovation, Canada has the most generous tax treatment of research and development in the world. But in terms of adoption of new ideas, Canada's tax system is far less encouraging compared with other jurisdictions around the world.
- ✓ Despite Canada's "low wage" environment, we have not attracted sizable new foreign direct investment and Canada's share of North American foreign direct investment has fallen.

TAX TRENDS AROUND THE WORLD

A January 1999 study by KPMG[6] surveyed the corporate income tax rates of 60 countries including the 29 member countries of the OECD and most countries in the Asia Pacific and Latin American regions. The following are key findings from the KPMG study:

Trends around the world point to lower corporate income taxes.

- ✓ Less developed countries in Latin America and the Asia Pacific levy lower tax rates than the more developed nations.
- ✓ The trend toward lower corporate income tax rates in developed countries continues.
- ✓ The trend toward lower corporate income tax rates is due in part to the increasing globalization of business and rapidly evolving technologies. As business and capital become more mobile, developed countries are under more pressure to keep their corporate income tax rates competitive or risk seeing businesses move their activities to lower tax jurisdictions.
- ✓ The Economic and Monetary Union in Europe is also putting downward pressure on tax rates. Since 1996, the average corporate income tax rate among European Union countries has dropped by about three percentage points.
- ✓ Developed countries are combining forces to counteract the effects of globalization. Increasingly countries are working together to keep their

[5] Anderson, Arthur, and Jack M. Mintz., 2000, "Reforming the Tax Cut Agenda", Prepared for the Canadian Tax Foundation Tax Policy Conference, Ottawa, February 2000, p. 5

[6] KPMG Corporate Tax Rate Survey, January 1999

tax measures in sync and there is greater cooperation in tax enforcement and development of tax policies.

As noted earlier, trends in developed countries point to significant reductions in corporate income tax rates. Ireland, in particular, is often considered a prime example of the positive impact of decreased corporate income tax rates on stimulating economic growth and investment. While several studies suggest that there is more to the story than just reductions of corporate income tax rates, they conclude that low taxes continue to be a significant factor in Ireland's dramatic economic growth.

Professor Brendan Walsh and others suggest a combination of factors was responsible for Ireland's boom, including fiscal stabilization and pruning of public expenditures, a favourable climate for foreign investment, increased success in industrial promotion, a low cost labour supply, increased access to post-secondary education, aid from the EU, and revisions to the exchange rate policy. In terms of changes to tax policy in Ireland, Walsh concludes that, "The basic lesson seems clear. A low corporate tax rate has formed an important component of Ireland's favourable environment for corporate investment and contributed significantly to raising the country's share of the flow of FDI (foreign investment) into the EU." [7]

THE IMPACT OF E-COMMERCE

Electronic commerce is changing the way business is done in Alberta, across Canada and around the world. Increasingly, location of the service is no longer a factor. People can almost instantly access the goods and services they need from anywhere in the world.

While the growth of e-commerce is opening up new opportunities for Alberta-based businesses, it also creates a number of challenges to the traditional ways of taxing businesses. For example, the growth of e-commerce suggests that sectors once considered to be "non-tradeable", and therefore subject only to "local" competition, such as the distribution and service sectors, are increasingly subject to international competition. This makes it no longer desirable, or even possible, to subject those sectors to higher tax burdens than traditional "tradeable" sectors such as natural resources and manufacturing.

In October 1998, the Alberta Tax Review Committee released its final report and recommendations on the *Future Direction for Personal Income Taxes in Alberta*. The report summarized a number of challenges created by the rapid expansion of e-commerce around the world. Those challenges include:

- ✓ Establishing identity – The identity of parties to a business transaction may be difficult to determine.
- ✓ Establishing location – Individuals and entities engaging in electronic commerce are able to establish an Internet address in almost any taxing jurisdiction regardless of where they are physically located.

[7] Walsh, Brendan, "Learning from International Experience: The Contribution of Tax Policy to Ireland's Economic Renaissance", Presented at the Canadian Tax Foundation, Tax Policy Conference, Ottawa, February 2000

- ✓ Obtaining acceptable documentation of proof – With electronic transactions, getting a "paper trail" or documenting transactions in different jurisdictions will be difficult.
- ✓ Eliminating the "middle men" – As traditional banks are transformed into a large number of banking facilities operating by Internet in offshore locations, it will be difficult for tax authorities to "piggy back" on the reporting requirements the central banks have traditionally provided.
- ✓ Tax havens and off-shore banking facilities – These will become more accessible and it will be easier for the average taxpayer to use offshore financial centres.

e-commerce will have an impact on tax policies around the world.

An April 1998 report from the federal Advisory Committee on Electronic Commerce pointed to a number of similar issues. The Advisory Committee's report highlights the need for Canada to work in partnership with the OECD and other countries to develop consistent approaches for addressing tax issues related to e-commerce. They encourage the federal government to promote consistency in electronic commerce policies among the Canadian provinces and with other countries. They also suggest that Canada should consider innovative ways to encourage an even greater degree of electronic commerce across the country.

At the international level, work on addressing tax policies related to electronic commerce continues. From the Committee's perspective, it is important for Canada and Alberta to have consistent policies with other jurisdictions around the world. Given the uncertainty of future tax policies related to e-commerce, it is important for the province to retain a mix and diversity of taxes to balance the potential impact e-commerce could have on government's ability to tax businesses in the province.

NEW APPROACHES FOR TAXING BUSINESS

Some have suggested it's time for a new approach.

In Alberta and across Canada, approaches to taxing business traditionally have focused on a combination of taxes on corporate income (including capital gains), property, capital, and consumption of various goods. The mix can be particularly complex since the "rules" vary among federal, provincial and municipal governments and from province to province.

Some have suggested it is time for a bold new approach to how we tax businesses in Canada. A number of alternative approaches have been proposed and deserve further consideration.

Jack Mintz and Richard Bird[8] suggest an alternative to the current corporate income tax system. Economists argue that taxes on capital discourage investment, especially when capital is highly mobile and will move to jurisdictions that offer lower taxes. Corporate income taxes are a tax on equity financed capital. Eliminating corporate income tax at the provincial

[8] Bird, Richard M. and Jack M. Mintz, "Tax Assignment in Canada: A Modest Proposal", February 2000

level and replacing it with the Mintz/Bird alternative would continue to tax capital but in a more efficient way. The base would be calculated as follows:

Alternative tax base = Revenues from the sales of goods and services – purchases of current inputs (except labour) – depreciation of capital expenditure – royalties paid to the Crown

In the case of Alberta, a tax of 2.6% applied to this base would generate the same revenues as the *existing* corporate income tax. A lower rate would deliver a tax cut to Alberta businesses.

Alternative approaches for taxing business should be explored.

There are several advantages of this approach. It would reduce distortions caused by taxing investment. It would reduce the bias against equity financing. It shifts from a tax on highly mobile capital to a more stable base of tax on both capital and labour. It generates lower marginal effective tax rates without the province losing significant revenues. On the other hand, it shifts a portion of the tax burden to labour and it may result in some downward pressure on wages. Similar taxes have been introduced in places like Michigan and Italy.

The Committee believes that this approach and other alternatives merit further investigation by the province. Given that capital is highly mobile, the province needs to create a solid competitive advantage to attract and retain capital. Other jurisdictions around the world are exploring new and innovative ways of taxing business. It is important for Alberta to keep pace with these changes and continue to seek the most effective ways of taxing business and maintaining our competitive tax advantage.

Starting points

Alberta must take steps to improve its competitive position.

WHAT ARE THE OBJECTIVES OF CHANGING ALBERTA'S BUSINESS TAXES?

Based on its review of tax trends across Canada and around the world, the Committee's view is that Alberta must take steps to improve its competitive position. The level and rate of taxes are an important component of business decisions about where to locate, invest or expand. In the past, Alberta enjoyed a competitive tax advantage, but today, that advantage is being eroded.

Across Canada, other provinces are taking steps to reduce business taxes as a way of attracting and stimulating economic growth. Ontario's scheduled reductions in its business tax regime will put Alberta at a competitive disadvantage. In effect, they have "laid down the gauntlet" for the rest of Canada.

The Committee also believes Alberta needs to set its sights well beyond the Canadian borders. It simply is not good enough for Alberta to compete with other provinces in Canada. In today's global economy, with highly mobile capital, Alberta needs to be able to compete with US states, particularly the Pacific Northwest, and other major trading partners and take an aggressive position in competing with leading countries around the world.

- ✓ *Standing still is not an option.*
- ✓ *Tax cut must be sustainable.*
- ✓ *Cuts to corporate income taxes provide the best advantage.*
- ✓ *Significant tax cuts for small business are important.*

The Committee's recommendations recognize that:

- ✓ ***Standing still is not an option***. Alberta must make significant reductions to overall business taxes in order to maintain and enhance our competitive position, especially in the face of global trends to lower corporate income taxes and increasingly mobile capital.
- ✓ At the same time, ***tax cuts must be sustainable***. A sufficient amount of revenues from business taxes is essential to support government programs and services. The province cannot count on resource revenues and personal income taxes as the only major sources of support for government programs and services.
- ✓ ***Substantial cuts to corporate income taxes provide the best advantage.*** Low corporate income taxes provide the biggest benefit for the most businesses in the province. Reducing corporate income taxes is the most effective tool for stimulating economic growth and it provides the biggest incentive to invest, create wealth, attract and grow new businesses, and create quality jobs for Albertans. While reductions in other business taxes may benefit particular industries, financial realities dictate that choices have to be made. Maintaining other taxes at the current rates provides ongoing revenue to help offset the cost of reducing corporate income taxes for all businesses in the province.
- ✓ ***Significant cuts to taxes paid by small businesses are important to support an essential component of Alberta's economy.*** Alberta's small business

sector has consistently been a dynamic engine of growth in the province. Reducing corporate income taxes for small businesses recognizes their importance to Alberta's economy, supports entrepreneurship, and encourages further growth and investment in small businesses across the province.

STARTING FROM PRINCIPLES

The Committee developed the following set of principles to guide its recommendations.

1. A low-rate, broad-based tax system is the best approach for Alberta.
2. Taxes should be fair and equitable and provide a level playing field. Businesses in similar circumstances or activities or with similar assets should pay similar taxes while those who can afford to pay more should pay more.
3. Taxation should provide the revenues to pay for necessary government programs and services.
4. Both the level and the mix of taxes should enhance Alberta's competitive position.
5. The tax system should promote economic growth, job creation, and prosperity for Albertans.
6. Because businesses benefit from Alberta's quality of life and the many programs and services government provides, they should be expected to pay a reasonable portion of the costs of government programs and services.
7. The tax system should balance the ability to pay with the overall benefits received.
8. The tax system should be simple and transparent.
9. The tax system should be predictable and stable.
10. The tax system should be efficient and require the minimum amount of administration.

Issues and recommendations

CORPORATE INCOME TAX

WHAT ARE THE ISSUES?

Alberta has maintained an overall tax advantage compared with other provinces, but that advantage is being eroded. Comparisons with other jurisdictions and trends highlighted in previous sections of this report show that other jurisdictions are moving to lower corporate income tax rates in order to attract and retain highly mobile capital in an increasingly competitive global marketplace.

> *"In an era where capital is increasingly mobile, we must ensure our business taxation regime remains competitive with that of other Canadian provinces and with foreign jurisdictions."*
>
> **Chartered Accountants of Alberta**

WHAT DID THE COMMITTEE HEAR?

The majority of submissions to the Business Tax Review Committee recommended a significant reduction in the corporate income tax rate. Corporate income taxes that are not competitive with other jurisdictions are viewed as having the most damaging impact on Alberta's future prosperity.

Many suggested that Alberta should become one of the most tax competitive jurisdictions in North America and lead the rest of Canada in low taxation for business. Specific suggestions for corporate income tax reductions included:

- ✓ Lower the general rate by 1% then move to match Ontario's reductions
- ✓ Lower the general rate to 11% and the small business rate to 4%
- ✓ Lower the general rate so it is initially 25% lower than all other provinces and eventually 50% lower than other provinces; in the longer term, consider eliminating Alberta corporate income tax entirely
- ✓ Match Ontario's rates of 8% on the general rate, 8% on the manufacturing and processing rate and 4% for small businesses by 2005
- ✓ Remove the difference between the general rate and the manufacturing and processing rate
- ✓ Reduce the general rate to 4% and eliminate corporate income taxes for small business
- ✓ Reduce the rate to 5.5%; a reduction to 10% would be a good first step
- ✓ Lower the general rate to 7.75%, the manufacturing and processing rate to 7.25% and eliminate corporate income taxes for small businesses making under $300,000
- ✓ Raise the small business threshold from $200,000 to $400,000 or $500,000.

> *"Without immediate action, Alberta's small business rate will become the fourth highest in Canada."*
>
> **Canadian Federation of Independent Business**

The way the corporate income allocation formula works for businesses operating in more than one province also has implications for Alberta, particularly in light of the prospect of significantly lower corporate income tax rates in Ontario (and currently in Quebec). Because the allocation

"The argument for lowering Corporate Taxes is straightforward: lower Corporate Taxes create a positive environment in which businesses can locate, prosper, hire new workers and contribute to the economic growth of the province."

Red Deer Chamber of Commerce

formula is based in part on the province's share of the payroll of these multi-jurisdictional companies, if Alberta's corporate income tax rate is significantly above the rates in other provinces, particularly large provinces like Ontario and Quebec, there is a disincentive for those companies to hire workers in Alberta relative to the lower taxed provinces. A high corporate income tax rate in Alberta relative to those other provinces is, in effect, a tax on jobs.

RECOMMENDATIONS

- ✓ ***The general corporate income tax rate should be reduced from 15.5% to 8% and the manufacturing and processing rate should be decreased from 14.5% to 8%, effective January 1, 2001.***
- ✓ ***The small business tax rate should be cut in half from 6% to 3%, effective January 1, 2001.***
- ✓ ***The amount of active business income eligible for the small business deduction should be doubled from $200,000 to $400,000 of taxable income, effective January 1, 2001.***

Rationale

- ✓ Lowering corporate income tax rates is consistent with the Committee's principles and the best way of improving Alberta's overall competitiveness.
- ✓ The benefits of a decrease in corporate income tax rates will flow to Albertans in the form of a growing economy, better job opportunities and higher wages.
- ✓ Lower corporate income taxes benefit all sectors of Alberta's economy. Low corporate income tax rates are also the most important tax variable in international studies on business location decisions.
- ✓ Lowering the rates to 8%, combined with the absence of capital taxes in the province, will make Alberta's corporate tax regime the lowest in Canada. (Further assessment of the impact on Alberta's competitive position is included in the last section of this report.)
- ✓ Cutting the small business rate in half and raising the threshold to $400,000 reflects the important role of small business in Alberta's economy. It will make Alberta's rates for small businesses the lowest in the country and should encourage greater investment and expansion of small businesses in the province.
- ✓ Lowering rates even further would continue to improve Alberta's competitive position, and should be considered in the longer term. However, the objective of the lowest possible rates has to be balanced against the need to generate sufficient revenues to support essential government programs and services.

Businesses benefit from lower taxes and so do all Albertans.

Alberta's small business tax rates would be the lowest in the country.

> *"Meaningful and sustainable tax reductions lead to investment, increasing employment and retention of quality workers. In countries such as Ireland, the U.K., Finland, the U.S. and Australia, tax reductions have proven to pay for themselves, as tax revenues are growing, not falling."*
>
> **Calgary Chamber of Commerce**

- ✓ There is no sound rationale for maintaining the difference between the general rate and the manufacturing and processing rate – all sectors of Alberta's economy will benefit from a significantly lower rate. Eliminating the difference between the general rate and the manufacturing and processing rate provides a level playing field and supports continuing diversification of Alberta's economy. This is particularly important in light of the fact that previously "non-tradeable" service and distribution sectors are increasingly subject to international competition due to developments in technology and e-commerce.
- ✓ The Committee expects that the reduction in corporate income tax rates will result in increased investment and economic growth in the province. This will offset a portion of the revenues forgone from decreasing the corporate income tax rates.

CAPITAL TAXES

WHAT ARE THE ISSUES?

Table 2 shows that general capital taxes in other provinces range from 0.64% in Quebec to 0.25% in Nova Scotia. Alberta is one of three provinces without a general capital tax. Capital taxes allow governments to have lower corporate income tax rates. Quebec, for example, has high capital taxes and is able to keep its corporate income tax rates low. Similarly, Ontario will have lower corporate income tax rates but is keeping its capital tax in place. On the other hand, even at low rates, capital taxes significantly increase marginal effective tax rates and the cost of doing business, and act as a disincentive to invest.

Provincial capital taxes are deductible in calculating taxable income for corporate income tax purposes. Alberta's share of taxable income of multi-jurisdictional taxfilers is therefore reduced by the deduction of other provinces' capital taxes. In other words, other provinces' capital taxes lower Alberta's corporate income tax revenues.

The federal government has advised the provinces that further increases to provincial capital taxes will not be deductible in the calculation of federal taxable income. Consequently the increases would also not be deductible in provinces whose corporate income taxes are administered by the federal government. Alberta is therefore on an unequal footing relative to other provinces that already have capital taxes which are deductible for federal purposes.

Like all other provinces, Alberta does have a capital tax on financial institutions. However, the playing field is unlevel in that Alberta Treasury Branches does not pay capital taxes, credit unions are subject to only a nominal tax, and non-regulated financial institutions, foreign banks and "virtual banks" are not subject to the tax.

Studies show that the service sector, which includes financial institutions, is the most heavily taxed sector in Canada, partially because of sector-specific provincial capital taxes. One option considered by the Committee was to make the capital tax a minimum tax. That means the capital tax would be payable only where the financial institution's annual corporate income tax liability is so low that its capital tax exceeds its corporate income tax.

"The tax system applying to the financial services sector does not meet the basic design principles of any business tax: equity, efficiency and simplicity. This is particularly true in the provincial capital, premium and sales tax areas."

Kevin J. Dancy, Research Paper Prepared for the Task Force on the Future of the Canadian Financial Services Sector, September 1998

WHAT DID THE COMMITTEE HEAR?

The Committee heard that allowing companies to deduct capital taxes paid in other provinces reduces revenues in Alberta and acts as a kind of "subsidization" of other provinces' tax regimes. The Report of the Technical Committee on Business Taxation[9] recommended that provincial capital taxes should not be deductible for corporate income tax purposes.

In relation to the capital tax on financial institutions, a background paper[10] prepared for the MacKay Task Force on the Future of the Canadian Financial Services Sector showed that the financial services industry is one of the most highly taxed industries in Canada and has faced faster increases to its tax burden relative to other industries. It also pointed out that banks carry the heaviest burden of capital taxation and that capital taxes are a competitive disadvantage for the industry. The MacKay Report followed up by recommending elimination of capital taxes targeted specifically at the financial services sector.[11]

The banking industry argued that Alberta's capital tax is unfair in that other industries do not pay a similar capital tax. They also pointed out the inequity of government regulations that require banks to maintain a certain amount of capital and provincial taxes levied on that mandated capital.

"… as banks begin to take advantage of the opportunity to form bank holding companies under Bill C-38, the new financial services legislation, it is possible that new subsidiary companies could be formed and located in any jurisdiction across Canada and around the world. A favourable amendment to Alberta's capital tax regime could make Alberta an attractive location for setting up such subsidiaries, thus providing future investment and job creation by Canada's banks and any new competing financial institutions."

Canadian Bankers Association

With dynamic changes in the financial services industry, Canada's banks no longer operate in a closed Canadian marketplace and face increasing competition from "virtual banks" and from financial institutions around the world. The federal government has therefore introduced legislation (Bill C-38) that will provide a new policy framework for Canada's financial services sector. The Bill received first reading in June and is currently under review by industry associations and provincial governments. As banks begin to take advantage of the Bill C-38 provisions, new subsidiary companies could be formed and located in any jurisdiction across Canada and around the world. Removing the capital tax on financial institutions could make Alberta an attractive location for setting up these subsidiaries. It would encourage future investment and job creation in Alberta by Canada's banks and any new competing financial institutions.

The Committee also heard that the Alberta capital tax increases the cost of doing business in Alberta, a cost that is passed on to bank customers. Submissions to the Committee indicated that consumer loan costs are 12 to 13 basis points higher because of capital taxes levied on banks. A competitive marketplace would ensure that the benefits of eliminating the Alberta capital

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9 Mintz, Jack M., Chair, *Report of the Technical Committee on Business Taxation*, December 1997

10 Dancy, Kevin J., "Impact of Taxation on the Financial Services Sector", Research Paper prepared for the Task Force on the Future of the Canadian Financial Services Sector, September 1998, pp. 23,31

11 Report of the Task Force on the Future of the Canadian Financial Services Sector, September 1998, p. 109

tax were passed on to consumers, particularly in terms of reducing borrowing costs for small and medium sized businesses and corporate borrowers.

RECOMMENDATIONS

- ✓ ***All capital taxes payable in other provinces should not be deductible in Alberta for purposes of calculating Alberta corporate income tax.***
- ✓ ***Alberta's capital tax on financial institutions should be eliminated.***

Rationale

Capital taxes are a disincentive for investment.

- ✓ In general, the Committee does not support capital taxes because they are a disincentive for investment. Removing the deductibility of capital taxes payable in other provinces will increase provincial corporate income tax revenue, putting Alberta on a more equal footing with other provinces that have capital taxes and meaning that Alberta no longer subsidizes taxes in other provinces.
- ✓ The capital tax on financial institutions creates an unlevel playing field with other sectors of Alberta's economy since financial institutions are the only businesses paying capital taxes in Alberta.
- ✓ The financial services sector is important to Alberta's future economic growth. Financial capital is very mobile and, with new federal legislation, eliminating the capital tax may encourage financial institutions to consider opening permanent establishments, holding companies or other subsidiaries in Alberta. This could result in increased investment, improved access to capital, and expanded job opportunities in the financial services sector.
- ✓ Foregone revenues from eliminating the capital tax on financial institutions are completely offset by removing the deductibility of capital taxes payable in other provinces.
- ✓ While other provinces also have capital taxes on financial institutions, Alberta can play a leadership role in eliminating these taxes. Once one province acts, there is pressure on the others to follow.

TAX CREDITS

WHAT ARE THE ISSUES?

Alberta has generally taken the position that a broad-based, low rate tax system is the best policy for stimulating economic growth across a wide range of sectors of Alberta's economy. At the same time, others argue that targeted tax credits and incentives should be used to stimulate and support certain sectors of the economy.

In terms of the development of Alberta's knowledge based industries, Alberta and Saskatchewan are the only provinces in Canada that do not provide targeted tax credits for research and development. While Alberta has invested in developing industries and supported basic research through the Alberta Heritage Foundation for Medical Research and the new Alberta Heritage Science and Engineering Research endowment funds, indications are that the province is falling behind in terms of commercialization of new products and overall growth of knowledge based industries. Some have argued that there is a shortage of "patient" capital (investors who are prepared to wait a considerable amount of time to see a return on their investment) to support knowledge based industries in Alberta. Others suggest that knowledge based industries need to develop their management and marketing capabilities or that there is sufficient capital available in the province but potential investors have trouble finding quality prospects.

Some suggest Alberta is falling behind in commercialization of new products.

At the same time, those opposed to targeted tax credits argue that establishing tax credits for research and development amounts to "picking winners and losers" – choosing to give one industry preferential treatment. Past experience with tax credit programs such as the federal government's Scientific Research and Experimental Development (SR & ED) program has shown mixed results. Reports from the Auditor General suggest that the program is "marginally cost-effective." Despite having the most generous tax incentives for research and development, Canada has the second lowest ratio of total spending on research and development to gross domestic product among the G-7 countries.[12]

In 1998, the Alberta Tax Review Committee recommended that the province consider implementing a modest temporary tax credit for research and development that paralleled the federal program. This recommendation was not accepted by the provincial government.

"Alberta's commitment to build the innovation-based economy places Alberta in the midst of a highly competitive global economy that is fundamentally different than anything that Alberta has seen before."

Alberta Science and Research Authority and the Alberta Economic Development Authority Technology and Technology Products Committee

WHAT DID THE COMMITTEE HEAR?

Several submissions pointed to the need to consider new approaches through the tax system to stimulate and support knowledge based industries, including specific tax credit programs. They noted that most start up businesses in the knowledge-based sector are not in a position to make profits for quite some time. Therefore, a broad-based, low rate tax regime with further reductions in corporate income tax is of little benefit to these

[12] Auditor General of Canada, August 2000, "2000 Report of the Auditor General of Canada"

companies. They also argued that, whatever the principles involved, the fact that all other provinces have moved to targeted tax credits and incentives makes it difficult for Alberta to compete. In their view, the result is that Alberta is falling behind in developing knowledge-based industries. The Committee also heard that, in spite of Alberta's low tax rates, the fact that other provinces have targeted tax credits means that Alberta is the most expensive province in Canada in which to perform research and development.

Several submissions suggested alternative approaches for encouraging investment in start-up knowledge based industries and commercialization of new products. Those suggestions included:

- Taxation on capital gains - Lower the capital gains inclusion rate to match Ontario's proposed reductions, include a rollover or grace period, consider a preferential tax rate for capital gains from investments in knowledge based industries.
- Flow-through shares – Allow research and development expenditures to be flowed through and claimed by shareholders rather than the knowledge-based company to make it beneficial for corporations and individuals to invest in knowledge-based industries.
- Link significant additional funding for Alberta educational or research organizations to sales of knowledge and technology to Alberta businesses. In effect, universities or other research organizations would receive a higher proportion of research funding if they were able to commercialize more of their new discoveries and products.

Rather than creating a new provincial incentive for R & D, Alberta should encourage the development and exploitation of new business and scientific ideas by implementing the corporate tax rate reduction recommended by CCPA [25% combined federal-provincial rate]; cutting the inclusion rate for capital gains to 50%; and aggressively capitalizing on the Alberta Heritage Foundation for Science and Engineering Research initiative.

Canadian Chemical Producers' Association

The Committee also heard a recommendation to introduce a tax credit on the personal side to encourage people to purchase "green energy" (energy produced from renewable resources such as wind, low impact hydro, or biomass).[13]

RECOMMENDATION

✓ ***The province should maintain a low rate, broad based tax system rather than introduce tax credits for specific industries.***

Rationale

✓ The Committee understands that other provinces have introduced tax credits and other incentives to attract knowledge-based industries. As a result, the after-tax cost of research and development in Alberta may be higher than it is in other provinces. However, in the Committee's view, there isn't a compelling case for moving away from the general approach of supporting broad-based, low rate taxes for all businesses in the province.

[13] Independent Power Producers

- ✓ The concern expressed in various submissions focused primarily on problems in commercialization of new products and services. Commercialization is a later stage in the process, following successful research and development and acquisition of venture capital. The commercialization stage is important to Alberta's economy regardless of whether the basic research is done within the province or not. Lower corporate income tax rates attract firms that are at the commercialization stage, resulting in quality jobs in the province. The Committee recognizes the need to find more effective ways of getting new ideas to the commercial stage but does not feel that targeted tax incentives are the best way of achieving that objective.
- ✓ Changes to taxation of capital gains (see later recommendations in this report) will help to encourage more capital investment in knowledge-based industries.

ALBERTA ROYALTY TAX CREDIT

WHAT ARE THE ISSUES?

Through the Alberta Royalty Tax Credit program, a percentage of Alberta Crown royalties are returned to oil and gas producers through the corporate income tax system. The current program costs the province between $150 and $300 million. The amount varies each year depending on the price of oil and gas.

The ARTC is a selective program that provides benefits to a specific industry – conventional oil and gas production. The program runs counter to the general approach of supporting broad-based, low rate taxes for all industries rather than targeted tax credits or other forms of government assistance. On the other hand, it provides financial assistance to the primary resource industry in the province and it has been in place for 25 years. Eliminating the royalty tax credit would result in reduced cash flow for Alberta's resource industries.

WHAT DID THE COMMITTEE HEAR?

The Committee heard about the benefits of ARTC in terms of supporting increased investment, expanded drilling and exploration activity, and jobs. Under the current program, about 80% of ARTC benefits go to companies that pay less than $10 million in oil and gas royalties a year. About 2,400 companies benefit from the ARTC program and most are small to medium sized companies.

On a separate but related issue, the resource industry was excluded from the federal government's corporate income tax reductions announced in the February 2000 Budget. The Committee heard concerns about this decision and supports the province's position that this decision was inappropriate and should be reconsidered by the federal government.

RECOMMENDATIONS

- ✓ ***Changes should be made to the ARTC program so that benefits go primarily to the smaller producers. Benefits should be phased out starting at $3 million in royalties paid and no benefits should be available to companies paying more than $6 million in royalties.***
- ✓ ***In the longer term, government should review the Alberta Royalty Tax Credit program with a view to phasing it out and using the savings to support reductions in corporate income tax rates.***

Rationale

- ✓ The ARTC program runs counter to the basic principles of the Committee. It is a targeted government assistance program that provides benefits to one sector of Alberta's economy, albeit a very important one to the province. At the same time, the Committee understands the negative impact removing the program would have, especially on smaller producers.
- ✓ Phasing out the benefits starting at $3 million in royalties paid will ensure that the benefits for smaller producers are maintained. Large producers will benefit substantially from the Committee's recommendations for lower corporate income taxes. Estimates show that, with the Committee's proposed recommendations, 79 large businesses currently paying royalties of over $6 million would have their benefits eliminated. Another 30 companies would have their benefits reduced, ranging from 25% to 75%. This is a small number of companies affected compared to the total of about 2400 companies that currently benefit from ARTC.

FUEL TAXES

WHAT ARE THE ISSUES?

Fuel taxes can harm Alberta's competitiveness if they are out of line with other jurisdictions'.

Fuel taxes paid by Alberta businesses can harm their competitiveness if the tax levels are out of line with other jurisdictions. Alberta exporters face higher costs because Alberta is relatively far from many trading markets. This means goods have to travel extensive distances to reach export destinations or ports. Recent increases in fuel prices have drawn attention to the level of tax included in fuel prices as one option for reducing the overall cost of fuel.

The following fuel tax rates/programs are currently in place:

- ✓ Aviation fuel tax – 1.5 cents a litre
- ✓ Railway diesel fuel tax – 3 cents a litre
- ✓ Propane fuel tax – 6.5 cents a litre
- ✓ Gasoline and diesel fuel tax – 9 cents a litre
- ✓ Ethanol and natural gas – exempt from fuel taxes
- ✓ Tax exemptions for fuel used off-road for commercial purposes

✓ Tax exemptions for farm fuel
✓ Grant of 6 cents a litre on diesel fuel used for farm equipment.

A comparison of fuel tax rates in other provinces is included in Table 2.

WHAT DID THE COMMITTEE HEAR?

The Committee heard concerns about the need to reduce taxes on all types of fuel in order to improve the competitive advantage of Alberta industries.

Different industries argued for reductions in their fuel taxes.

Aviation fuel

While information suggests that Alberta's rate is competitive relative to other provinces, the Committee heard that further reductions or elimination of the aviation fuel tax would provide an additional advantage for Alberta's airports in Calgary and Edmonton. British Columbia has taken steps to reduce aviation fuel tax for international flights to 2 cents a litre and has removed tax for cargo operations. Washington State, California, Texas and Colorado charge no aviation fuel tax.

Those who advocate lower aviation fuel taxes argue that the 1997 reduction in taxes resulted in an upward trend in aviation fuel being purchased in Alberta. They argue that elimination of aviation fuel taxes would encourage and support the development of potential new hubs for airline traffic at either Edmonton or Calgary. The two major hubs of Toronto and Vancouver have higher costs than Edmonton and Calgary. In addition, recent reductions in flights to and from Alberta are having an impact on business, tourism, and individual travel. The development of hubs in Alberta would help ensure that there are sufficient flights to meet business, tourism and individual travel needs.

Railway diesel fuel

Submissions to the Committee indicated that 61% of Alberta's goods depend on railways to reach their markets and 81% of Alberta's exports are to US markets. Representatives of the railway industry indicated that competition in the railway industry is fierce and that Canadian railways pay higher overall taxes than US railroads, other Canadian industries, and the North American trucking industry. As well, while Alberta's railway diesel fuel tax rates compare favourably with those in other provinces, they are considerably higher than rates in US competitor states. Railway industry representatives also indicated that an efficient railway transportation system reduces costs for all exporting and importing businesses in the province, conserves fuel and is more efficient than trucking in reducing greenhouse gas emissions. The railway industry also pays for its own infrastructure.

Submissions on behalf of the railway industry suggested that Alberta's tax on railway fuel should be eliminated or, on an interim basis, reduced to the US level of 1.7 cents a litre.

Gasoline and diesel fuel

Submissions from Alberta's trucking industry indicated that 70% of Canada's exports and imports are moved by truck. The volume of goods moved annually to, through and within Alberta is estimated at over 34 million metric tonnes, more than air and rail combined. Recent increases in fuel prices across Canada have had a significant negative impact on the trucking industry, particularly since the cost of fuel amounts to 18 – 24% of their total operating costs. Elimination of the 9 cents a litre tax on gasoline and diesel fuel would save their industry $156 million and would promote the investment in capital needed by the industry to respond to the projected growth of the province's economy.

> *"While Alberta's gasoline and diesel fuel tax rates are the lowest in Canada, these taxes still represent a significant input cost for small business."*
>
> **Canadian Federation of Independent Business**

Similar concerns about the impact of high gasoline and diesel prices were also expressed in a number of other submissions. Suggestions were made to decrease Alberta's tax in order to offset increasing prices.

Propane fuel

Propane contains less energy than other motor vehicle fuels and therefore is taxed at a lower rate. The tax per unit of energy is the same as that of gasoline.

Ethanol and natural gas

Some argue that natural gas and ethanol fuels receive an unfair advantage because they are not taxed. Others suggest that the tax advantage is important to encourage the use of environmentally-friendly fuels and the development of infant industries.

Fuel tax exemptions

The Tax Exempt Fuel Use (TEFU) program and the Alberta Farm Fuel Benefit Program (AFFBP) provide certain exemptions from fuel taxes. These programs provide benefits to some sectors of Alberta's economy and not to others. Under the AFFBP, fuel used to power farm vehicles and equipment is exempt from tax. Under TEFU, fuel used in commercial off road vehicles and equipment is similarly tax exempt. However, under TEFU, there is an added complexity where a vehicle is used both on-road (fuel is taxable) and off-road (fuel is tax exempt). In these circumstances, owners need to keep track of the proportion of time vehicles are used off-road and then apply for tax rebates. The Committee heard that the rebate portion of the program is complex, difficult to administer and comply with, and costly to audit. The Committee also heard concerns about abuses.

RECOMMENDATIONS

- ✓ ***No changes should be made to the aviation fuel tax, the railway diesel fuel tax or taxes on gasoline and diesel fuel.***
- ✓ ***Changes should be made to the Tax Exempt Fuel Use program so that licensed vehicles are no longer eligible for the exemption and the rebate***

process is terminated. Unlicenced vehicles and equipment used off-road for commercial purposes would still be able to use tax-exempt marked fuel.

- ✓ ***Similar changes should be made to the Alberta Farm Fuel Benefit Program so that licensed vehicles are no longer eligible for the exemption. Unlicensed vehicles and farm equipment would still be able to use tax exempt, marked fuel.***

Rationale

- ✓ The Committee heard arguments for reducing taxes on all types of fuel. However, Alberta's fuel taxes on aviation fuel, railway diesel fuel, and gasoline and diesel fuel already are generally competitive with other provinces and jurisdictions.

Alberta's fuel taxes are competitive with other jurisdictions'.

- ✓ In terms of aviation fuel tax, the Committee is not convinced that reducing the aviation fuel tax would result in an expansion of flights in Alberta or in establishing Edmonton or Calgary as a major hub for airline traffic in the country. Alberta's rates already are competitive with other provinces.
- ✓ While the Committee understands that the railway fuel tax is an input cost to the industry, Alberta's rates already are competitive in comparison with other provinces. There does not appear to be a clear competitive or economic advantage to Alberta if the rates are lowered as the allocation of fuel consumption across the provinces is based on kilometers travelled, rather than where the fuel is purchased. The Committee encourages government to take steps to review this interprovincial allocation practice.
- ✓ The current Tax Exempt Fuel Use program is complex and difficult to administer and enforce. Requiring all licensed vehicles to use clear fuel rather than marked fuel will simplify the process for both business and government. Licensed vehicles that are sometimes used off-road would not be eligible for tax exemptions or rebates.
- ✓ Unlicensed farm and commercial vehicles, such as tractors, and other off-road equipment will continue to use tax exempt marked fuel. This provides a continuing benefit to farmers and commercial fuel users.

INSURANCE CORPORATIONS TAX

WHAT ARE THE ISSUES?

All provinces and territories in Canada levy a tax based on insurance premiums. In Alberta, some form of tax on insurance corporations has been in place since 1907. Insurance premiums are not subject to GST. Some other jurisdictions also levy a tax on insurance premiums including US states, the United Kingdom, Japan, Italy and Austria.

On the one hand, premium taxes are easy for both the insurance company and government to administer and they produce a steady and usually increasing source of revenue. On the other hand, it is a tax that applies only to the insurance industry and it results in higher prices for consumers.

WHAT DID THE COMMITTEE HEAR?

Representatives of the insurance industry indicated that their industry and the services sector pays a disproportionate share of business taxes in Canada.

They indicated that the tax bill paid by Canada's property and casualty insurance industry is more than three times the average tax burden paid by Canada's other financial services industries. They also suggest that any reductions in the insurance corporations tax would be passed on to consumers because of the highly competitive marketplace. Current layers of taxation on their industry limit their ability to provide products to consumers at the lowest possible price. Property and casualty insurers advocated that, if the tax is retained, it should be specifically allocated to fund loss prevention initiatives that would reduce the likelihood of damage and/or injury to Albertans.

On the life and health insurance side, representatives suggested that the tax rate on life and accident and sickness premiums should be reduced to a level commensurate with that of the financial institutions capital tax on banks and trusts.

Other submissions suggested that the insurance corporations tax should be eliminated because the costs are simply passed on to consumers.

RECOMMENDATION

✓ ***No changes should be made to the insurance corporations tax.***

Rationale

✓ The Committee acknowledges that the tax based on insurance premiums is a selective tax on a particular industry. In principle, specific taxes for specific industries are not supported by the Committee.

✓ However, the Committee does not believe that reducing the tax would provide a competitive advantage for the province or for Albertans. Table 2 shows that Alberta's rates are competitive with other provinces and all other provinces have an insurance premiums tax.

HOTEL ROOM TAX

WHAT ARE THE ISSUES?

Most jurisdictions have taxes on hotel rooms.

Most jurisdictions levy taxes on temporary accommodations. These taxes usually take the form of a specific hotel room tax, a general sales tax, or some combination of both.

All provinces in Canada tax temporary accommodations. In some provinces, the tax is an extension of the general sales tax. In other provinces, the tax falls under separate legislation. Some provinces also allow a local charge in addition to the provincial tax. Provincial accommodation taxes are in addition to the federal GST.

In the United States, all states levy taxes on room rentals. Three states – Alaska, California and Oregon – permit local jurisdictions to levy hotel room taxes. In other countries, value-added taxes on hotel rooms can range as high as 20% or more.

Information suggests that, while there may be some increase in the number of hotel stays as a result of lower taxes and lower rates, a reduction in the hotel room tax is not likely to result in a substantial improvement in Alberta's competitive position and a corresponding increase in tourism travel and hotel visits in the province. About half of the total room nights are occupied by out of province visitors and the rest are Albertans and industrial crews.

WHAT DID THE COMMITTEE HEAR?

Most submissions said retain the hotel room tax, but spend an equal amount on tourism marketing.

The majority of submissions said that the hotel room tax should be maintained. The primary concern is not with the tax itself but with a need to substantially increase the amount of money available for tourism marketing in the province. Representatives of the tourism industry, chambers of commerce, cities and municipalities, and hotel owners indicated that, because of limited funds available for marketing, the province is falling behind in attracting new visitors to the province. The idea that we can "build it and they will come" doesn't work in the tourism industry; marketing is needed to expand awareness and attract visitors from key national and international markets. Insufficient spending on marketing puts the province at risk of not meeting its targets for increasing tourism revenues from the current $4 billion to $6 billion by 2005.

Suggested options for the hotel room tax include:

- ✓ Retain the hotel room tax with no changes
- ✓ Eliminate or reduce the hotel room tax
- ✓ Eliminate the provincial hotel room tax and allow municipalities to levy a hotel room tax and use the revenues for tourism marketing
- ✓ Retain the provincial hotel room tax and invest an amount equal to the revenues from the tax into tourism marketing for the province.

"Frankly, the need for additional investment in tourism marketing is more of an issue than the accommodation tax. However, accommodation tax for tourism marketing provides the best resource solution."

Calgary Convention and Visitors Bureau

The most common view was that the hotel room tax should be retained and an equal amount should be invested in tourism marketing. Several submissions suggested that half of the revenues from the hotel room tax should be allocated to municipalities and half should go to provincial marketing initiatives. Some submissions suggested that if the province were not willing to dedicate an equivalent amount for tourism marketing, they would prefer to have the province eliminate the tax and allow municipalities to tax hotels and use the funds for tourism marketing. Others objected to the idea of allowing municipalities to tax for this purpose, arguing that it would result in inequities in taxes paid by the hotel industry and in the ability of different parts of the province to undertake tourism marketing initiatives.

The Committee also heard that the current exemption on accommodations with fewer than four rooms should be removed. This would mean that bed and breakfasts would have to pay the hotel room tax. A suggestion also was made that the exemption for stays over 28 days should be eliminated.

RECOMMENDATION

✓ ***No changes should be made to the hotel room tax at this time.***

Rationale:

Alberta's hotel room tax is similar or lower than many competitors'.

✓ The hotel room tax is not a competitiveness issue as virtually all jurisdictions around the world tax temporary accommodations in some manner. Alberta's hotel room tax is similar or lower than many competitors'.

✓ Information suggests that eliminating the tax and reducing room rates is not likely to result in a significant increase in overnight stays in Alberta hotels.

✓ While the Committee is sympathetic to the need for additional funding for tourism marketing, it does not support dedicated taxes. The province may choose to increase its spending but that decision should not be tied to the amount of hotel room taxes collected.

NON-RESIDENTIAL EDUCATION PROPERTY TAXES

WHAT ARE THE ISSUES?

The Committee's mandate included a review of issues related to education property taxes paid by business and industry. Currently, the province funds education through a combination of general revenues and education property taxes; 38% of education funding comes from property taxes and 62% comes from general revenues. The province sets a uniform mill rate based on the amount of money it requires from the property tax base. The mill rate for residential education property taxes (6.77 mills) is less than the mill rate for non-residential property (9.94 mills).

Specific issues related to education property tax include the following:

- Some municipalities have seen large increases in their requisitions as a result of rapid growth and believe their residents are paying too great a share of the costs of education.
- Some municipalities suggest that they need more tax room to deal with their own fiscal pressures; they argue that the province should get out of property taxes entirely and provide more tax room for municipalities.
- Certain industries continue to pay education taxes on machinery and equipment while other industries are exempt. The province eliminated machinery and equipment tax on manufacturing and processing equipment in 1998. However, the province continues to levy education taxes on linear property machinery and equipment.
- Education property tax rates are higher for non-residential property owners than for residential homeowners.
- Taxes on wealth, measured by the value of real property in this case, are generally part of a jurisdiction's tax mix. With electronic commerce changing the playing field, some argue that maintaining a broad range of taxes within the tax mix is prudent.

In addition to these specific issues, other government committees and task forces are addressing overall issues related to education property tax and alternatives for the future, assessment practices, and education property taxes for farmland.

WHAT DID THE COMMITTEE HEAR?

A number of submissions raised significant concerns about property tax issues in general and education property taxes in particular. In a survey of Calgary businesses, over 20% said that property taxes were most damaging to Alberta business as a whole. In a similar survey conducted by the Canadian Federation of Independent Business, 52% of respondents ranked property and business taxes as the most harmful taxes for small businesses. (Personal income taxes ranked highest at 63% and corporate income taxes were ranked second at almost 60%. Respondents were able to choose more than one tax.) As noted earlier, Nesbitt Burns suggests that Canada's commercial property taxes are among the highest in the world.

Several submissions suggested that property taxes add to the cost of business and are unfair because they must be paid regardless of whether a business is profitable or not. Taxes that are not based on profits are particularly a problem for small businesses because they make firms more vulnerable in tougher economic times. Property taxes are a disadvantage to businesses that need property in order to operate.

Other government committees are addressing education property taxes.

The Committee heard a number of specific suggestions for changes to non-residential education property taxes. A number of submissions addressed inequities with respect to machinery and equipment tax on electric power property. With changes to deregulate the electrical industry, existing plants will continue to pay machinery and equipment tax while new electricity generating plants will not. This creates inequities and puts existing plants at a competitive disadvantage. Other suggestions included removing the education tax on all remaining machinery and equipment, including linear property, electric power and pipelines. Several other submissions suggested that the difference between education property tax rates paid by residential and non-residential property owners should be reduced or eliminated.

RECOMMENDATION

Government shold continue its policy of low education property tax rates.

✓ ***Government should address issues related to the taxation of machinery and equipment assessment on electric power property and take steps to eliminate the current inequities.***

Rationale

✓ The Committee heard a number of specific issues related to education property taxes on non-residential property. However, in view of the fact that a committee of Members of the Legislative Assembly is addressing education property tax issues, the Business Tax Review Committee has decided not to make any broad recommendations with respect to education property tax.

- ✓ The Committee supports government's policy of maintaining low education property tax rates for both residential and non-residential property owners.
- ✓ In terms of electric power, the Committee consistently heard about inequities in the tax system, particularly as a result of plans underway to deregulate Alberta's electricity industry. While the Committee is not in a position to make specific recommendations, we urge government to take action to remove the current inconsistencies and provide a level playing field between existing and new electricity generation plants.

CAPITAL GAINS

WHAT ARE THE ISSUES?

> *"The crucial issue about the capital gains tax is not its revenue-raising capacity. I think it is a very poor tax for that purpose. Indeed, its major impact is to impede entrepreneurial activity and capital formation. While all taxes impede economic growth to one extent or another, the capital gains tax is at the far end of the scale."*
>
> **US Federal Reserve Chairman Alan Greenspan, February 25, 1997**

Alberta businesses are affected by the taxation of capital gains in both the personal and corporate tax systems. A high tax rate on capital is an impediment to investment in businesses, including knowledge-based businesses and start-ups. The treatment of capital gains is complicated by the desire to coordinate the corporate and personal income tax systems.

A recent report of the Standing Senate Committee on Banking, Trade and Commerce reviewed Canada's taxes on capital gains and concluded that Canada is moving from an average-taxed country to one of the highest taxed in the world. The Senate Committee recommended a substantial reduction in the rate of tax on capital gains to match the rates in the US. In the longer term, the Senate Committee recommended that the rates should be lower than the US rates. A recent US Senate report suggests that the US should take steps to reduce their capital gains tax in order to improve their competitive position and encourage investment.

With recent changes announced in the federal budget, the effective top marginal personal income tax rate on capital gains in Alberta will be 27.11% including the top federal rate of 20.11% and the top provincial rate of 7% in 2001. The US federal rate on individuals depends on the length of the holding period for the capital gain and the residence of taxpayers. The US federal rate falls from 39.6% for holding periods of less than one year to 20% for holding periods of one to five years and 18% for holdings of more than five years. Most states also levy tax on capital gains. The rate varies among states that are Alberta's closest competitors. Washington, with no personal income tax, has a state rate of 0% while California has one of the highest state rates at 9.3%. The combined federal/state rates for most of our US competitors therefore range from 20-30% for holding periods of one to five years.

Canada and the United States both provide special tax relief for capital gains through their personal income tax systems. Capital gains realized on the taxpayer's primary residence are not taxed in either the US or Canada (subject to technical rules). The family home is the most important capital asset for most taxpayers. Canada also provides a lifetime exemption of $500,000 of capital gains realized on the sale of a family farm or small business.

In Canada, the taxation of capital gains in certain corporations in the corporate and personal income tax systems is approximately integrated. All corporations benefit from a lower rate of tax on capital gains than on other forms of income. In the US, special low tax rates on capital gains are available to individuals, while capital gains received by corporations are taxed at the same rate as ordinary business income.

The federal government reduced the inclusion rate for capital gains from 75% to 66.7% in 2000. Ontario plans to reduce its capital gains inclusion rate to 50% by 2004. Saskatchewan has indicated that, in order to remain competitive with other jurisdictions, further reductions to the tax on capital gains are required. They are proposing that a rate of 11% (the rate for the lowest tax bracket in the province by 2003) be applied to taxable capital gains on qualified farm property and small business shares exceeding the lifetime $500,000 capital gains deduction. This would be implemented either through a tax credit or a tax rebate program. Agreement has not been reached with the federal government in terms of implementing provincial changes to capital gains taxes.

As noted in the Canadian Senate Committee report, arguments in support of reducing the tax rate on capital gains suggest that these reductions would:

- ✓ Improve international competitiveness
- ✓ Accelerate business and job creation
- ✓ Enhance economic activity and productivity by lowering the cost of capital and facilitating the movement of resources to the most productive ventures at the lowest cost
- ✓ Create more efficient capital markets and financial flexibility
- ✓ Eliminate the double tax that occurs when income on savings and investment is taxed
- ✓ Expand wealth creation, savings and capital accumulation
- ✓ Encourage greater entrepreneurship, risk taking and business formations, including promoting innovation and investments in new ventures.

On the other hand, those opposed to reducing capital gains taxes argue that:

- ✓ The reductions give the biggest benefits to people with higher incomes
- ✓ The difference in tax rates on capital gains, interest and dividends will result in a significant increase in tax planning to convert investment income to capital gains
- ✓ Reducing the rate may lead to a loss in tax revenue
- ✓ Reducing the rate erodes the principle that taxpayers with the same ability to pay should pay the same amount of tax, regardless of the form of income.

> *"A more favourable treatment of capital gains derived from investment in start-up and early stage companies would be of significant benefit in attracting "angel" investment into firms not only in the innovation-based economy but also across the entire spectrum of the economy."*
>
> **Alberta Science and Research Authority and the Alberta Economic Development Authority Technology and Technology Products Committee**

WHAT DID THE COMMITTEE HEAR?

Several submissions to the Committee suggested that steps should be taken to ensure that Alberta's treatment of capital gains is competitive with other Canadian jurisdictions.

Some suggested that capital gains, together with stock options, should be taxed at an inclusion rate that does not exceed the 50% rate proposed by Ontario and is significantly below the 66.7% rate announced by the federal government. The same rates should be applied to capital gains realized by individuals. Others suggested that a preferential rate should be introduced for capital gains from investments in emerging and knowledge based industries. One submission recommended that a smoothing mechanism should be introduced in order to reduce the serious inequities that result from taxing financial institutions on paper gains and losses under the mark-to-market rules.

The Committee heard some concerns about phasing in reductions to the inclusion rate for capital gains. Gradual reductions may put investors in a difficult position. If they choose to sell their shares before reductions are made, they will pay more tax but if they hold off, they may pay less tax but lose on the value of their investment or fail to realize a better return. The "promise" of tax rate reductions in four or five years creates uncertainty and is of little benefit to those who are thinking of investing in other countries where rates are already lower. The Committee also heard that experience from the US shows there was an increase in revenues from capital gains after the rate was reduced. A Nesbitt Burns assessment of changes announced in the federal government's 2000 budget suggests that, "The experience of other countries has been that capital gains tax cuts unleash locked-in gains and spur stock market performance, enlarging the gains going forward."[14]

RECOMMENDATION

✓ ***Alberta's capital gains inclusion rate should be lowered from 66.7% to 50% for corporate income tax purposes. A similar reduction for personal income tax on capital gains is recommended.***

Rationale

✓ Taxation of capital gains is a significant issue affecting Canada's competitiveness. In today's world, capital is highly mobile. Attracting and retaining investment plays a critical role in expanding our economy and maintaining a high standard of living.

✓ While the federal government has taken steps to reduce the capital gains inclusion rate, Canada's taxes on capital gains continue to be significantly higher than other countries. This puts Canada and Alberta at a competitive disadvantage in attracting capital investment.

[14] "Congratulations Mr. Martin – A Better-than-expected Budget", Nesbitt Burns website, February 28, 2000

- ✓ Lower capital gains taxes combined with lower corporate income tax rates and a positive business environment will help Alberta attract investment from around the world, and encourage greater investment in start-up and emerging knowledge based industries.
- ✓ The Committee suggests that the province should move as quickly as possible to implement a 50% inclusion rate. The Committee understands that unilateral action by provinces to reduce their capital gains inclusion rates may have an impact on the federal-provincial tax collection agreements. The Committee urges the province to work with other provinces and the federal government to find the most appropriate mechanisms to reduce the inclusion rate without compromising the federal-provincial tax collection agreements.

Financial and economic impact

The Committee looked at the impact of its recommendations on Alberta's financial picture, economy and competitive position.

On the financial side, the proposed changes to business taxes would reduce revenues to the province by an estimated $741 million.

Table 5 shows the estimated reduction in revenues as a result of lowering certain taxes and changing others. Table 5 does not include any estimates of the amount of offsetting revenue that would be generated as a result of increased economic activity caused by a substantial drop in Alberta's corporate income tax rates. Based on a number of studies and experience in other countries, the Committee believes that economic growth and expanded investment would significantly offset the initial reductions in revenues.

To assess the impact of its recommendations on Alberta's economy, the Committee used a number of different approaches:

- ✓ Using the KPMG model to show how competitive rankings of tax burdens for firms in Alberta cities would improve relative to firms in the same industry in other North American cities
- ✓ Using a comparison of marginal effective tax rates to show how the province's overall competitiveness would improve in relation to other provinces and countries
- ✓ Looking at the short term economic impact on a number of related factors such as Gross Domestic Product (GDP) and growth in real business investment
- ✓ Taking a longer term view of the benefits to Alberta's economy.

COMPETITIVE RANKINGS IMPROVE WITH LOWER CORPORATE INCOME TAXES

Competitive rankings for Edmonton and Calgary move to 1st and 2nd in most cases.

The Committee used the KPMG model to assess the impact of reducing Alberta's general and manufacturing and processing corporate income tax rates to 8% on the competitive rankings of Alberta businesses.

With current levels of corporate income tax, Edmonton and Calgary ranked between 4th and 8th out of 13 cities examined using the model. With a reduction in corporate income tax rates to 8%, there would be substantial improvement in the rankings for both cities, moving them to first and second in most cases.

TABLE 5 ALBERTA BUSINESS TAX REVIEW COMMITTEE ESTIMATED COST OF RECOMMENDATIONS

(Based on forecast for 2000/01 tax revenues)

TAX	RECOMMENDATION	ANNUAL COST ($Millions)
Corporate Income Tax[1]	Reduce general rate to 8%	$736
	Reduce M&P rate to 8%	(in above)
	Lower small business rate to 3%	$93
	Raise small business threshold to $400,000 (assumes 15% of CCPCs bonus down[2])	$20
Capital Taxes		
General	Make other provinces' general capital taxes non-deductible for Alberta corporate income tax purposes	($36)[3]
Financial Institutions	Eliminate. Make other provinces' financial institution capital taxes non-deductible	$35[3]
Fuel Taxes	TEFU exemption limited to unlicensed vehicles	($30)
	AFFBP exemption limited to unlicensed vehicles	($27)
Royalty Tax Credit[1]	Phase out benefits between $3 million and $6 million in royalties paid	($50)
TOTAL TAX REDUCTION		**$741**
Capital Gains	Make inclusion rate 50% (includes impact on PIT side; assumes 40% of capital gains are corporate)	$90[3]

1 Based on revised revenue estimates for 2000/01 in the Budget 2000 First Quarter Fiscal Update.
2 Bonusing down is the practice of reducing corporate income to $200,000 to fall within the small business threshold, by paying bonuses out to owners who then pay personal income tax on the bonus. The estimated cost includes an estimate for reduction to personal income taxes.
3 Based on Alberta's general CIT rate being reduced to 8%.

TABLE 6 RANKING OF ALBERTA'S PROPOSED TAX COMPETITIVENESS

(Based on Alberta corporate income tax rate reduced to 8% and Ontario's announced reduction to 8%)

	Electronics	Food Processing	Medical Devices	Metal Fabrication	Pharmaceuticals	Plastics Manufacturing	Software	Telecom Equipment
Calgary	2	2	2	2	2	2	2	2
Edmonton	1	1	1	1	1	1	3	1
Montreal	4	3	3	3	3	3	1	3
Ottawa	5	5	5	5	5	5	4	5
Toronto	3	4	4	4	4	4	4	4
Vancouver	10	10	9	10	7	10	13	7
Boise	9	9	10	8	9	8	9	9
Boston	13	13	12	13	11	13	11	12
Colorado Springs	8	6	8	7	8	7	8	8
Minneapolis	7	8	6	9	6	9	7	6
Phoenix	11	11	11	11	13	11	10	11
San Jose	12	12	13	12	12	12	12	13
Seattle	6	7	7	6	10	6	8	10

Table 6 clearly indicates the impact of reducing Alberta's corporate income tax rates. Compared with Table 4 on page 19, Table 6 shows that Edmonton and Calgary would consistently rate first or second in terms of tax competitiveness with the other 11 cities across all industry sectors except for advanced software. In the case of software, Calgary and Edmonton would rank 2nd and 3rd.

Tables in Appendix 4 look at the competitive position of two of the industry sectors in more detail. In the case of an advanced software company, Calgary and Edmonton's rankings move up from 7th and 8th to 2nd and 3rd, just slightly behind Montreal. This is in spite of extensive incentives for high tech industries provided in Quebec. For a plastics manufacturing company, Edmonton's tax competitiveness moves from 4th to 1st, and Calgary's competitiveness ranking moves from 6th to 2nd.

MARGINAL EFFECTIVE TAX RATES SHOW SIGNIFICANT IMPROVEMENT IN COMPETITIVENESS

As discussed earlier, marginal effective tax rates (METRs) are a good way of assessing the relative competitiveness of different provinces and countries because they take into account a number of different taxes, not just corporate income tax. In particular, they show the impact of capital taxes on competitiveness. METRs do not include the impact of property taxes.

Table 3 on page 18 showed how Alberta stacks up against Ontario and Quebec and other G7 countries. Tables 7 and 8 show the dramatic impact of reducing Alberta's corporate income tax rates on improving the province's competitive advantage. It's important to note that Alberta's tax advantage would be achieved in 2001 compared with changes proposed in other provinces for 2006. In comparison with Ontario and Quebec, even though Alberta's corporate income tax rates would be comparable, the fact that we do not have a capital tax provides a significant advantage over these other provinces. Alberta's competitive position relative to other countries also improves dramatically and puts Alberta in the same league as leading countries around the world.

Alberta's marginal effective tax rates would be the best in Canada.

TABLE 7 ALBERTA'S NATIONAL TAX ADVANTAGE

Marginal effective tax rates: Selected provinces (percent)

	Alberta		Ontario		B.C.		Quebec	
	2000	**2001**	2000	**2006**	2000	**2006**	2000	**2006**
Manufacturing	19.9	15.4	22.1	18.6	24.1	24.1	22.5	22.5
Services	29.1	17.7	31.5	21.0	32.3	26.9	29.5	25.0

Alberta would be in the same league as other leading countries.

TABLE 8 ALBERTA'S INTERNATIONAL TAX ADVANTAGE - 2006

Marginal effective tax rates: Selected countries (percent)

	Alberta	**U.S.**	**U.K.**	**Germany**	**France**	**Italy**	**Japan**
Manufacturing	15.4	23.6	17.2	19.8	22.7	18.1	22.6
Services	17.7	24.8	17.2	15.6	25.3	18.1	**24.0**

SHORT TERM ECONOMIC BENEFITS ARE SUBSTANTIAL

In the short term, economic estimates provided to the Committee suggest that reducing Alberta's corporate income taxes would:

- ✓ Raise Alberta's real GDP by an additional 1.5% by 2006
- ✓ Increase total business investment by an additional 2.3% by 2006
- ✓ Increase productivity by 1.2%
- ✓ Low prices for consumers
- ✓ Lower costs for business.

These positive impacts would be realized within six years of the implementation of corporate income tax reductions.

Corporate income tax reductions would increase Alberta's GDP by $1.7 billion, about $520 per person.

Moreover, the short term economic impacts are not insignificant. An additional 1.5% increase in real GDP (over and above current projections for economic growth in the province) amounts to $1.7 billion added to Alberta's economy or $520 per person. This extra income would be generated not just in one year, but each and every year, forever. A 2.3% increase in total business investment represents significant growth in Alberta's economy. And a 1.2% increase in productivity would lead to corresponding increases in real wages in Alberta.

BENEFITS EXTEND OVER THE LONGER TERM

Good jobs and good incomes depend on competitive business taxes.

While the short term benefits are significant, the real benefits of the business tax reductions would be realized over the longer term, in the form of increased growth and even higher productivity and real wages.

Studies show that business taxes have a significant impact on economic growth and productivity.[15] Pierre Fortin[16] emphasizes that the key to economic growth lies not only in a skilled and educated labour force (which Alberta has), but also on the availability of good jobs with good incomes. Good jobs and good incomes depend on competitive business taxes. The impact of the Committee's proposed business tax cuts should result in increased business investment and lead to increased availability of good, well paying jobs for Albertans.

"The cuts we're recommending will mean more jobs – and better paying jobs – for Albertans, lower prices, and a higher standard of living. Business tax cuts are good for all of us."

Canadian Taxpayers Federation

Studies of fiscal policies and growth in various countries suggest that a heavy reliance on business taxes is bad for economic growth. For example, a recent cross-country study indicates that a one percentage point reduction in business taxes as a percentage of GDP leads to an increase in the growth rate of real GDP per person of from 0.3 to 0.4 percentage points a year.[17] While this may not seem like very much, through the magic of compounding, small increases in growth rates can lead to significant increases in income over time. Using these estimates, the corporate income tax cuts recommended by the Committee would increase the annual growth rate in real per capita GDP in Alberta by about one-third of a percentage point – about a 10% increase in the growth rate. To put this in context, if GDP growth had been one-third of a percentage point higher throughout the 1990s, the average income of every person in Alberta would now be about $1,000 higher. In just ten years, higher growth in GDP of this order of magnitude would increase real per capita incomes in Alberta by 3.2% more than without the tax cuts proposed.

[15] Whalley, John, "Efficiency Considerations in Business Tax Reform", Technical Committee on Business Tax Working Paper, 1997, pp. 97-81

[16] Fortin, Pierre, "The Canadian Standard of Living: Is there a way up?", Benefactors Lecture, C.D. Howe Institute, 1999

[17] Kneller, Bleaney and Gemmel. 1999. "Fiscal Policy and Growth: Evidence from OECD Countries" Journal of Public Economics (74)2, pp. 171-190

IN SUMMARY ...

Corporate income tax cuts are sustainable.

The Committee believes that the overall impact of its recommendations would result in a tremendous boost to Alberta's competitive position. Specifically, the Committee believes that:

- ✓ The initial decrease in corporate income tax revenues would be offset significantly by economic growth and expanded investment in the province.
- ✓ The recommended tax reductions are sustainable.
- ✓ Alberta's competitive position would be dramatically improved. With lower taxes, Alberta would be able to attract and retain investment and growth in the economy. New business ventures would see Alberta as one of the most attractive places to locate, expand and invest.

Albertans benefit from a growing economy, new business ventures, better jobs and higher wages.

- ✓ Albertans would benefit directly from lower corporate income taxes. Those benefits would come through better jobs and higher wages, increased economic activity, more investment to expand current businesses in the province, and greater incentives to invest in start-up and emerging industries.
- ✓ Standing still is not an option. In view of the worldwide trend to lower corporate income taxes and the increasing mobility of capital and highly skilled people, Alberta cannot maintain its current level of taxes and expect to be able to compete with other provinces and jurisdictions around the world.

Appendix 1

2000 ALBERTA BUSINESS TAX REVIEW COMMITTEE SUBMISSIONS

Alberta Pacific Forest Industries Inc.

Pauline Marple

T.H. Rathwell

Alberta Hotel Association

Edmonton Capital Region Tourism Partnership

Canadian Petroleum Products Institute

Progressive Group for Independent Business

Calgary Chamber of Commerce

Alderman Jon Lord, Calgary

Canadian Bankers' Association

Red Deer Chamber of Commerce

Stephen Behun

Maria Basaraba

Western Chapter, Canadian Property Tax Association

Stantec Inc.

City of Calgary

Edmonton Chamber of Commerce

Canadian Federation of Independent Business

Canadian Western Bank

Alberta Chambers of Commerce, Alberta

Insurance Bureau of Canada

Alberta Trucking Association

Alex Boudeau

Van Horne Institute

- Calgary Airport Authority
- Edmonton Regional Airports Authority
- Air Canada

Institute of Chartered Accountants of Alberta

Canadian Chemical Producers Association

TransAlta Utilities Corporation

Railway Association of Canada

Canadian Association of Petroleum Producers

Calgary Convention and Visitors Bureau

Canadian Life and Health Insurance Association Inc.

Canadian Taxpayers Federation

Olds and District Chamber of Commerce

ASRA/AEDA Technology and Technology Products Committee

Alberta Urban Municipalities Association

City of Edmonton

St. Paul & District Chamber of Commerce

Sundre & District Chamber of Commerce

Cochrane & District Chamber of Commerce

Brewster

Vermilion & District Chamber of Commerce

Devon & District Chamber of Commerce

Stony Plain & District Chamber of Commerce

Canadian Gas & Electric Company Ltd.

Redwater and District Chamber of Commerce

Small Explorers and Producers Association of Canada

Appendix 2

PROVINCIAL AND STATE CORPORATE INCOME TAX RATES

Province/State	General	Mfg. & Process	Small Business
Alberta	15.5%	14.5%	6.0%
British Columbia	16.5%	16.5%	4.75%
Manitoba	17.0%	17%[1]	7%
Ontario	14.5%	12.5%	7.0%
Quebec[2]	9.04%	9.04%	9.04%
Newfoundland	14.0%	5.0%	5.0%
Prince Edward Island	16.0%	7.5%	7.5%
Nova Scotia	16.0%	16.0%	5.0%
NB	17.0%	17.0%	4.5%
Sask.	17.0%	10 - 17%	8.0%
Alabama	5.0%[3]	5.0%	5.0%
Alaska	9.4%	9.4%	1.0 – 9.4%[4]
Arizona	8.0%	8.0%	8.0%
Arkansas	6.0 - 6.5%	6.0 – 6.5%	1.0 – 6.0%
California[5]	8.84%	8.84%	8.84%
Colorado[6]	4.75%	4.75%	4.75%
Connecticut	7.5%	7.5%	7.5%
Delaware	8.7%	0.24%[7]	8.7%
Florida	5.5%	5.5%	5.5%
Georgia	6.0%	6.0%	6.0%
Hawaii	5.8 - 6.4%	5.8 - 6.4%	4.4 – 5.8%
Idaho	8.0%	8.0%	8.0%
Illinois	7.3%[8]	7.3%	7.3%
Indiana	3.4%[9,10]	3.4%	3.4%
Iowa	8.75 – 12.0%[11]	8.75 – 12.0%	6.0 – 8.75%
Kansas	4.1%[12]	4.1%	4.1%
Kentucky	6.1 – 8.25%	6.1 – 8.25%	4.0 – 6.1%
Louisiana	6.1 – 8.0%[13]	6.1 – 8.0%	4.0 – 6.1%
Maine	8.33 – 8.93%	8.33 – 8.93%	3.5 – 8.33%
Maryland	7.0%	7.0%	7.0%
Massachusetts	9.5%[14]	9.5%	9.5%
Michigan	2.2%	2.2%	2.2%
Minnesota	9.8%[15]	9.8%	9.8%
Mississippi	4.75 - 5.0%	4.75 - 5.0%	3.0 – 4.75%
Missouri	6.25%[16]	6.25%	6.25%
Montana	6.75%	6.75%	6.75%
Nebraska	7.25 - 7.81%	7.25 - 7.81%	5.58 – 7.25%
Nevada	N/A	N/A	N/A
New Hampshire	8.0%[17]	8.0%	8.0%
New Jersey	9.0%	9.0%	7.5%
New Mexico	4.8% - 7.6%	4.8% - 7.6%	4.8%
New York	8.5%	8.5%	7.5%[18]
North Carolina	6.9%	6.9%	6.9%
North Dakota	9.67 - 10.5%[19]	9.67 - 10.5%	3.00 – 9.67%
Ohio	7.65 - 8.5%	7.65 - 8.5%	5.1 – 7.65%
Oklahoma	6.0%	6.0%	6.0%
Oregon	6.6%	6.6%	6.6%

…continued

Province/State	General	Mfg. & Process	Small Business
Pennsylvania	9.99%	9.99%	9.99%
Rhode Island	9.0%	9.0%	9.0%
South Carolina	5.0%	5.0%	5.0%
South Dakota	N/A	N/A	N/A
Tennessee	6.0%	6.0%	6.0%
Texas	4.5%[20]	4.5%	4.5%
Utah	5.0%	5.0%	5.0%
Vermont	9.0 - 9.75%	9.0 - 9.75%	7.0 – 9.0%
Virginia	6.0%	6.0%	6.0%
Washington[21]	N/A	N/A	N/A
West Virginia	9.0%	9.0%	9.0%
Wisconsin	7.9%	7.9%	7.9%
Wyoming	N/A	N/A	N/A
Federal Rates			
Canada	**29.12[22]**	**22.12**	**13.12[23]**
United States	**35.0**	**35.0**	**30.6[24]**

Source: *Alberta Economic Development, CCH State Tax Handbook 2000 and IRS*

Notes and Assumptions:

- Rate comparisons are often misleading due to significant variations in calculation/application.
- Small business defined as having taxable income < $200,000 in the respective currencies.
- Small business upper rates for states employing a step-function calculation are calculated effective rates at a taxable income of U.S. $200,000 to be comparable with the current Canadian small business threshold.
- Banks, financial institutions, insurance and utility firms often pay different rates.
- Provincial rates are those known as of May 2, 2000. Most U.S. rates are effective Dec. 31, 1999 with a few effective as of Jan. 1, 2000.
- Alternative minimum tax rates are not addressed.
- U.S. rates are those applicable to 'C' corporations; 'S' corporation rates are not included.

1 Corporate income tax on Mfg. offset by Mfg. Investment Tax Credit that can be carried forward for 7 years.
2 Includes a 1.6% Youth Fund surtax
3 Federal Income Tax is 100% deductible in calculating state tax
4 Highest rates are the effective threshold rate for a taxable income of $200,000.
5 Applies to subchapter "c" corporations. Flow through subchapter "s" corporations taxed at 1.5%.
6 Tax rates vary annually to balance the budget.
7 Applies to gross receipts.
8 Includes a flat rate corporate income tax at 4.8% and personal property replacement tax which is levied on net income.
9 As with many jurisdictions, rates for banks and insurance companies are different and pay an additional 4.5%
10 Additional tax on gross income applied at rates ranging from 0.3 – 1.2% to a broad cross-section of businesses.
11 Federal Income Tax is 50% deductible in calculating state tax
12 Includes a 3.35% surtax on income greater than $50,000.
13 Federal Income Tax is 100% deductible in calculating state tax
14 Financial institution rate is 10.5%
15 An additional levy of 5.8% of the alternative minimum tax is also applied.
16 Federal Income Tax is 50% deductible in calculating state tax
17 Plus 0.5% of the "enterprise value tax base" < $50,000.
18 Rate rises to 8.5% for net income > $200,000 before declining again to 5.0% for excess net income over $250,000
19 Federal Income Tax is 100% deductible in calculating state tax
20 Levied on "net taxable earned surplus" which basically includes federal net taxable income plus compensation paid to officers and directors of the corporation.
21 Washington applies a "business occupation tax" ranging from 0.138 to 3.3% of gross income according to type of business.
22 Effective Jan. 1, 2001 will decline to 28.12% and further decline to 22.12% by 2004.
23 Effective Jan. 1, 2001 this "effective rate" will be extended to taxable income threshold of $300,000 from the current upper threshold of $200,000.
24 Effective rate as of Dec. 31, 1999 on taxable income of $200,000.

Appendix 3

EXPLANATION OF MARGINAL EFFECTIVE TAX RATES (METRS)

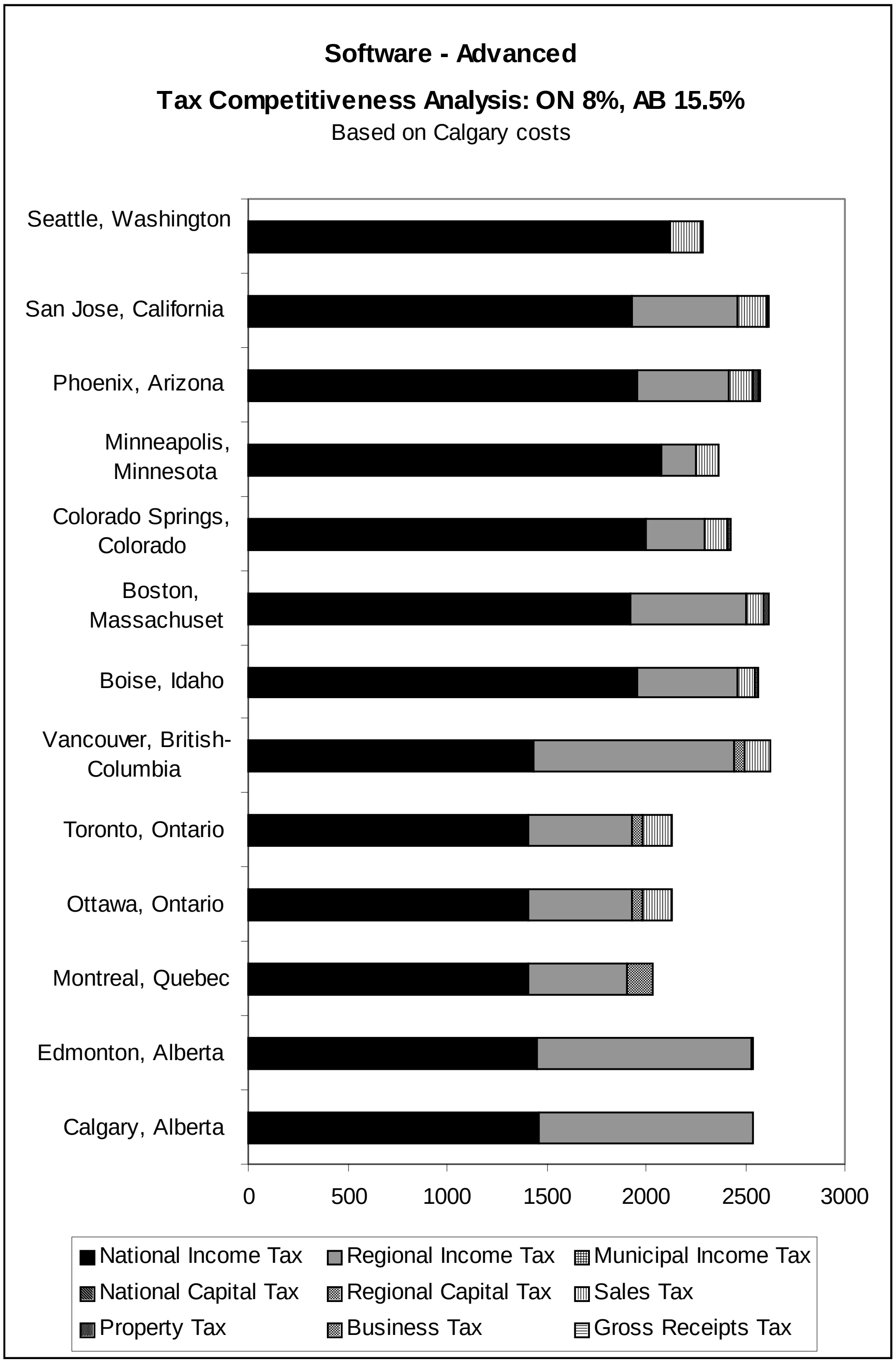
When thinking about the competitiveness of corporate tax systems across jurisdictions, most people focus on *statutory corporate income tax (CIT) rates*. These are the tax rates set out in the Income Tax Act. While important, the statutory CIT rate is only one part of the corporate tax system. Equally important is the *tax base*, which is determined by the various rules that govern the rate and nature of various deductions and write-offs against corporate revenue. There may also be tax credits associated with certain types of investments that further reduce corporate tax liability directly. Generous write-offs and credits can negate the impact of a high statutory tax rate. Moreover, many jurisdictions impose *other taxes* on capital, such as explicit capital taxes, that are not taken into account in a simple comparison of statutory CIT rates. The latter is particularly important for Alberta, as in contrast to most of the other provinces Alberta does not levy an explicit capital tax in addition to its corporate income tax. Capital taxes allow the other provinces to lower their CIT rates, which makes their tax systems look "competitive" in a simple comparison of CIT rates. A case in point is Quebec, which imposes a low CIT rate of 8.9% but a high capital tax rate of 0.64%. Direct capital taxes imposed at even relatively low rates can have a significant impact on the *effective* tax rate on capital. It is also important to note that provincial capital taxes are deductible against income for CIT purposes. Thus, while other provinces lower their CIT rates by imposing direct capital taxes they also lower corporate income tax revenues collected in Alberta due to the resulting reduction in corporate taxable income.

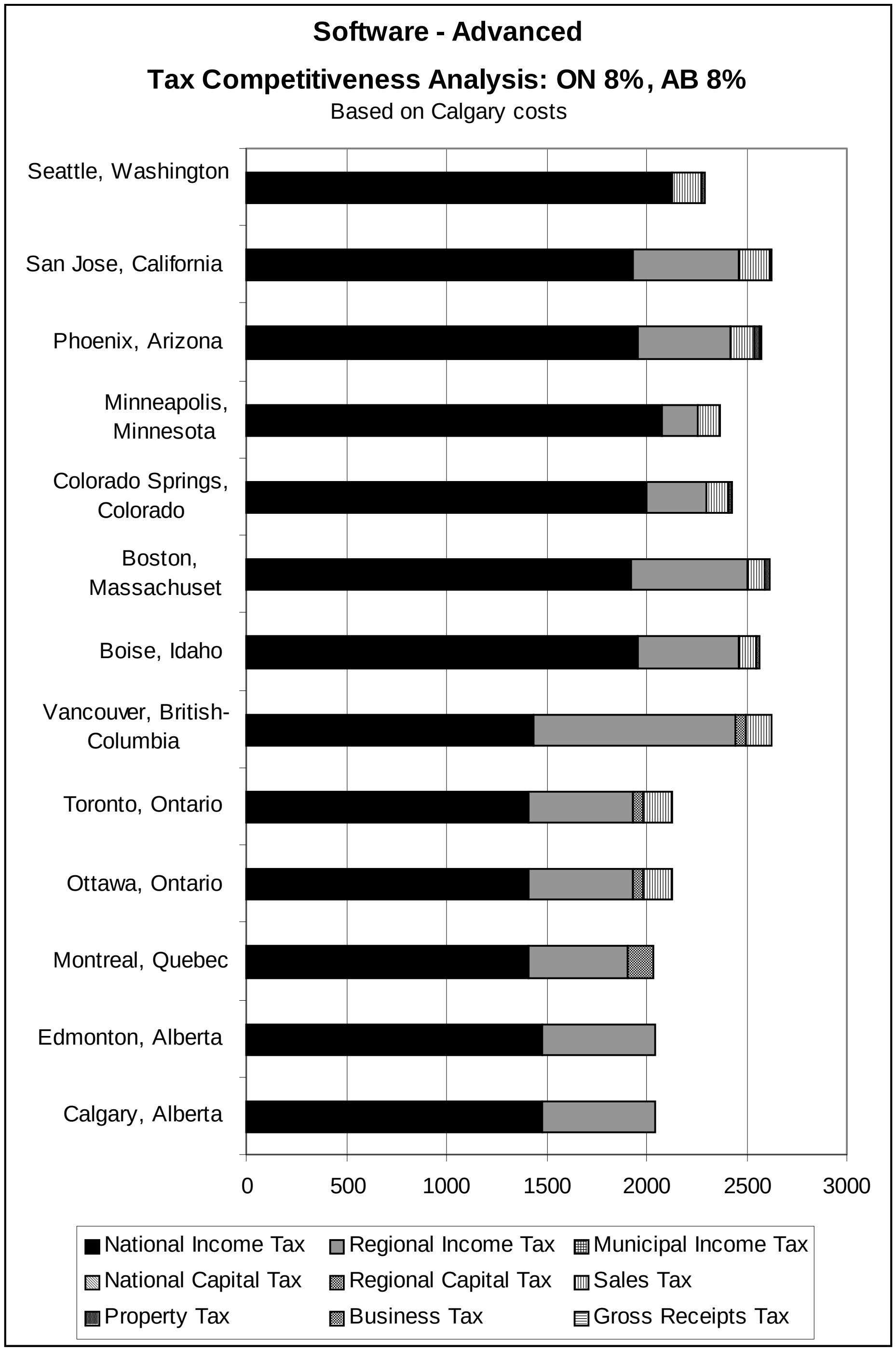
One way of taking all of this into account, and therefore of comparing the overall competitiveness of business tax regimes in various jurisdictions, is to calculate the *marginal effective tax rate* (METR) on corporate capital. The idea behind the METR is conceptually quite simple. It employs the notion of the *hurdle rate of return*. Investors have many opportunities for investment, and in order to attract their savings corporations must generate an expected rate of return that at least compensates investors for their *forgone investment opportunities* - the hurdle rate of return is the minimum after-corporate tax rate of return required to just compensate investors for their forgone investment opportunities. For this reason, economists often refer to the hurdle rate of return as the *opportunity cost of finance*. All investment projects must generate a rate of return that is at least as great as the opportunity cost of the funds used to finance the project. Corporate taxes impinge upon the hurdle rate of return by lowering the income available to investors. For example, say that the after-corporate tax hurdle rate of return is 5%. This is to say that after the payment of corporate taxes, shareholders require an expected rate of return of at least 5% in order to entice them to invest in the corporation. Now say that after taking account of the various write-offs, deductions and credits allowed under the CIT, paying taxes at the relevant statutory CIT rate, and paying any other taxes imposed on the capital (such as explicit capital taxes), in order to generate a rate of return of 5% *after* the payment of corporate taxes, corporations need to generate a rate of return of 10% *before* the payment of corporate taxes. The METR on capital in this case is 50%, calculated simply as (10%-5%)/10%. The METR thus measures the *tax wedge* driven between the before- and after-corporate tax rate of return on *marginal* investment projects, where a marginal project is simply an investment that *just* earns the required hurdle rate of return after the payment of corporate taxes. In this example, the METR of 50% means that the *after-tax* rate of return on a marginal investment is 50% lower than the *before-tax* rate of return.

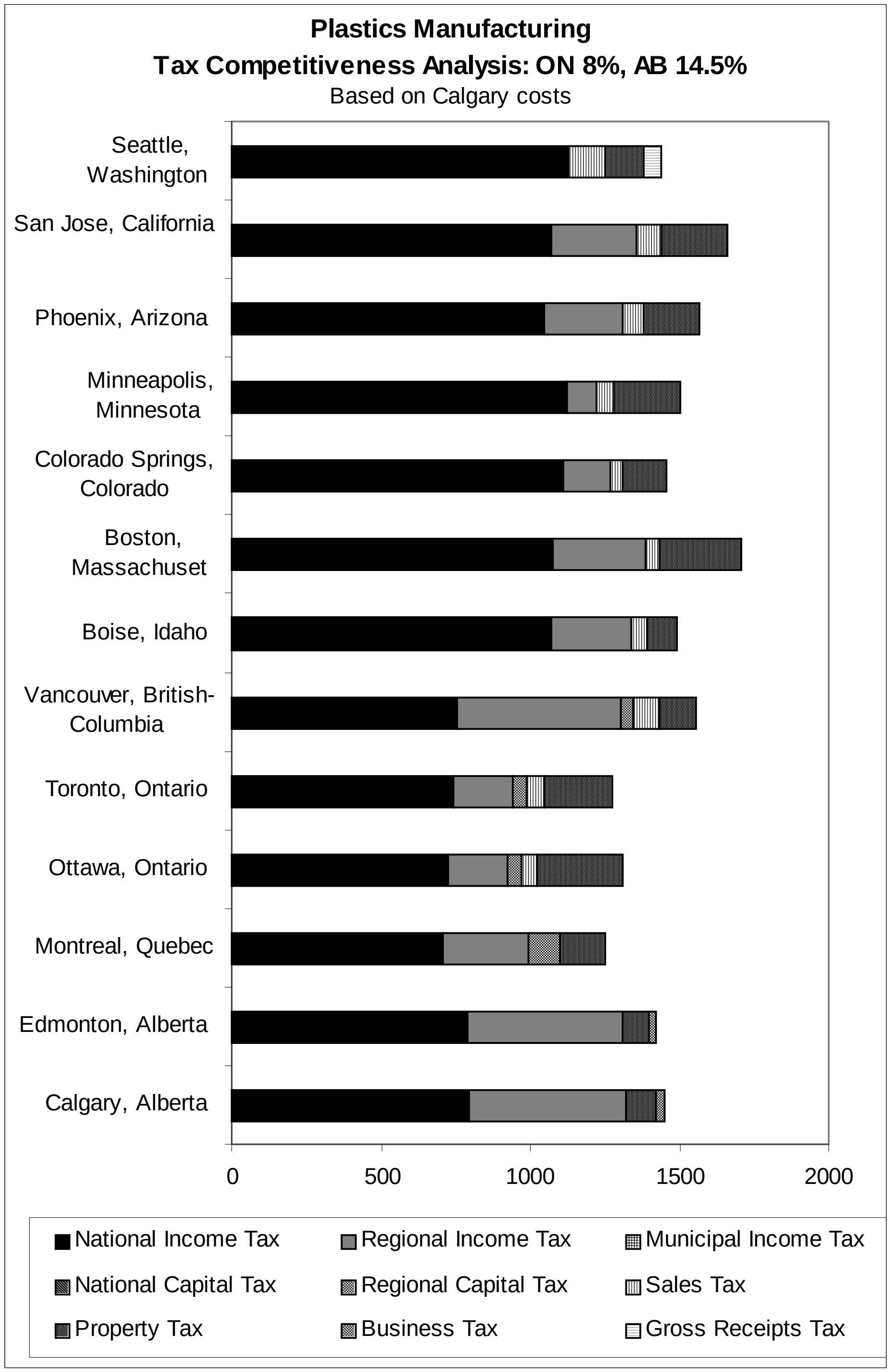
A positive METR means that the tax system *discourages* investment, by taxing the return to a marginal project. A negative METR means that the tax system *encourages* investment, by subsidizing the return to a marginal investment. In either case the tax system introduces *distortions* (or *inefficiencies*) into the economy by causing investment to be either lower or higher than it would be in the absence of taxation. A METR of zero means that the tax system is *neutral* with respect to investment - i.e., it neither discourages nor encourages investment - and does not impinge upon the return to a marginal investment. Calculating METRs allows us to assess the relative of competitiveness of the business tax regime across jurisdictions using a single, and sensible summary measure that accounts not only for differences in statutory CIT rates across jurisdictions and types of investment, but also for differences in tax bases due to write-offs and credits, and for differences in direct capital tax rates.

Appendix 4

IMPACT OF CORPORATE INCOME TAX REDUCTIONS ON SELECTED INDUSTRIES




Software - Advanced
Tax Competitiveness Analysis: ON 8%, AB 8%
Based on Calgary costs
Seattle, Washington
San Jose, California
Phoenix, Arizona
Minneapolis, Minnesota
Colorado Springs, Colorado
Boston, Massachuset
Boise, Idaho
Vancouver, British-Columbia
Toronto, Ontario
Ottawa, Ontario
Montreal, Quebec
Edmonton, Alberta
Calgary, Alberta
0
500
1000
1500
2000
2500
3000
National Income Tax
Regional Income Tax
Municipal Income Tax
National Capital Tax
Regional Capital Tax
Sales Tax
Property Tax
Business Tax
Gross Receipts Tax



Plastics Manufacturing
Tax Competitiveness Analysis: ON 8%, AB 14.5%
Based on Calgary costs
Seattle, Washington
San Jose, California
Phoenix, Arizona
Minneapolis, Minnesota
Colorado Springs, Colorado
Boston, Massachuset
Boise, Idaho
Vancouver, British-Columbia
Toronto, Ontario
Ottawa, Ontario
Montreal, Quebec
Edmonton, Alberta
Calgary, Alberta
0
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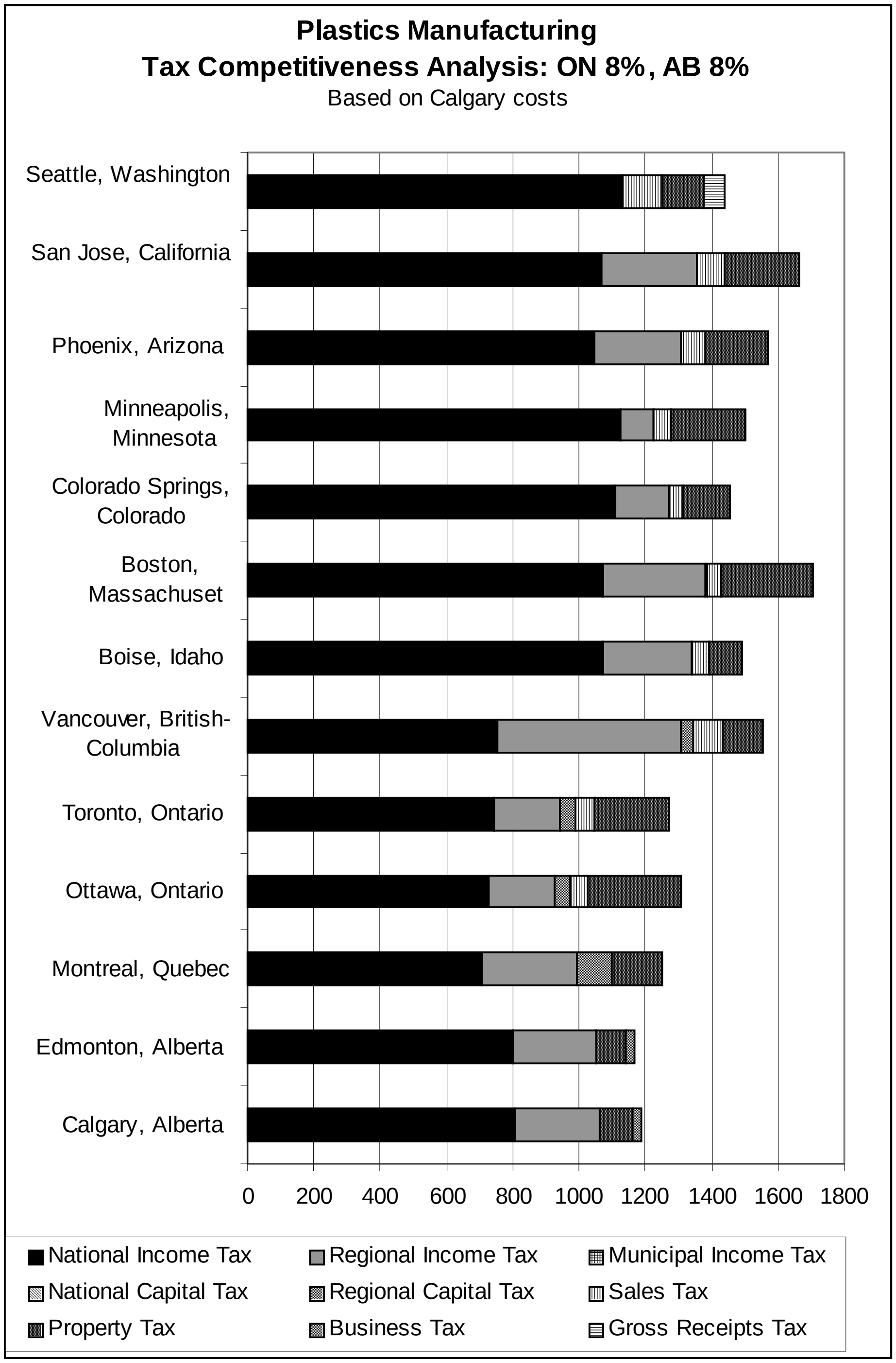
Regional Income Tax
Municipal Income Tax
National Capital Tax
Regional Capital Tax
Sales Tax
Property Tax
Business Tax
Gross Receipts Tax


Plastics Manufacturing
Tax Competitiveness Analysis: ON 8%, AB 8%
Based on Calgary costs
Seattle, Washington
San Jose, California
Phoenix, Arizona
Minneapolis, Minnesota
Colorado Springs, Colorado
Boston, Massachuset
Boise, Idaho
Vancouver, British-Columbia
Toronto, Ontario
Ottawa, Ontario
Montreal, Quebec
Edmonton, Alberta
Calgary, Alberta
0
200
400
600
800
1000
1200
1400
1600
1800
National Income Tax
Regional Income Tax
Municipal Income Tax
National Capital Tax
Regional Capital Tax
Sales Tax
Property Tax
Business Tax
Gross Receipts Tax

Appendix 5

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