A Plan for Growth and Opportunity: Business Tax Reform in Saskatchewan

Saskatchewan Department of Finance

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BUSINESS TAX REFORM IN SASKATCHEWAN

INTRODUCTION

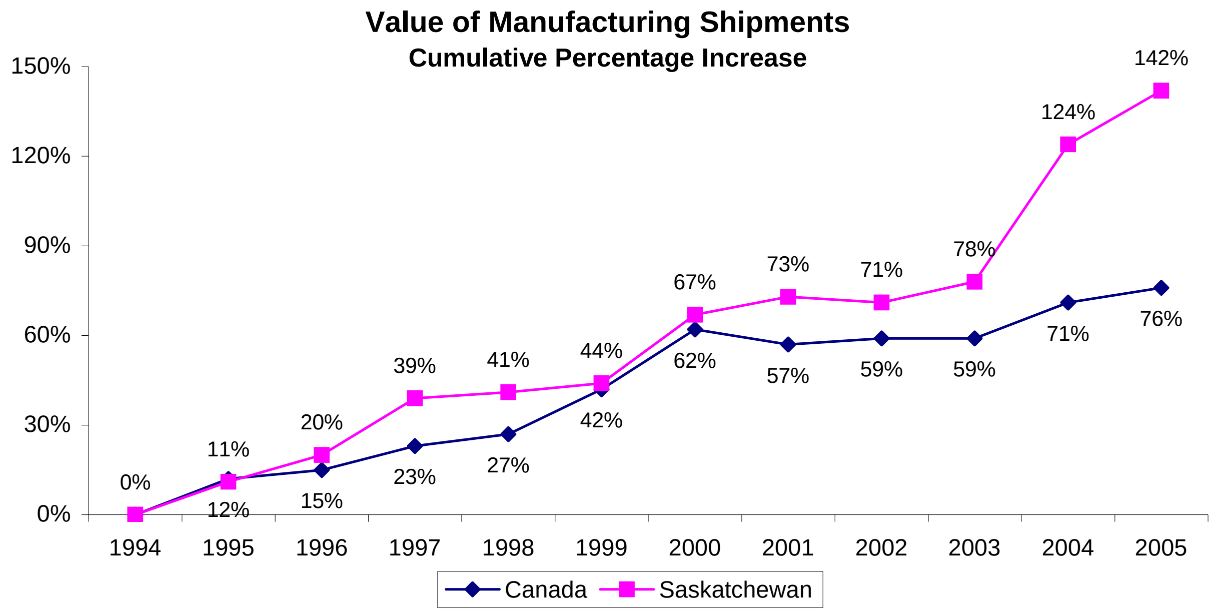
The Government of Saskatchewan's business tax strategy over the past decade has been to focus limited fiscal resources on targeted tax incentives for key sectors of the economy in order to enhance existing competitive strengths.

Saskatchewan's targeted tax initiatives have included Provincial Sales Tax (PST) exemptions for direct agents, mining exploration equipment and oil and gas rigs, as well as an investment tax credit (ITC) to offset the PST on manufacturing and processing (M&P) capital, a reduced Corporation Income Tax (CIT) rate for the M&P sector and a number of resource royalty initiatives. A wide range of other tax and spending initiatives have targeted the agricultural, technology, film and small business sectors.

BUSINESS TAX EXPENDITURES 2005 Costs	
Agriculture	$259.3 million
Small Business	$183.5 million
M&P	$43.5 million
Resources	$16.2 million
Other	$22.1 million
Total	**$524.6 million**

In addition to providing targeted tax incentives, Saskatchewan does not levy a business tax on labour, such as a payroll tax or health premium. Saskatchewan is the only jurisdiction west of Quebec to avoid the use of labour-based taxes.

The targeted tax incentive strategy has been particularly effective in enhancing Saskatchewan's M&P sector. For example, the value of Saskatchewan's manufacturing shipments has grown at a significantly greater pace than the national average since the introduction of the M&P tax reforms in 1995.



Source – Statistics Canada, Survey of Manufacturers

During the January 2005 Centennial Economic Summit, the Government acknowledged the need to better promote investment and job creation in the province. The Government committed to developing an economic action plan for the province, which was fully unveiled in September 2005. As part of that plan, an independent, external review of the province's business tax regime was proposed.

CONTEXT FOR REFORM

The Saskatchewan Business Tax Review Committee, consisting of three tax experts[1], was appointed soon after the 2005-06 Budget to conduct an independent, external review of the province's business tax regime.

The Business Tax Review Committee was asked to conduct a broad, open review of Saskatchewan's business taxes, including income, capital, consumption and labour taxes, and to provide the Government a balanced and unbiased assessment of the tax system's impact on Saskatchewan's economic climate for investment and job creation.

[1] The Saskatchewan Business Tax Review Committee, consisting of Jack Vicq, FCA, Charlie Baldock, CA and Cheryl Shepherd, CA, was appointed on March 29, 2005 and submitted its report to the Government on November 24, 2005.

The Committee undertook an eight-month study of the provincial business tax system, focusing on the following key issues:

- Are Saskatchewan's business taxes currently uncompetitive?
- Will business tax reductions increase investment and create jobs?
- What business tax reductions are most effective?
- What business tax reductions are affordable and sustainable?

The work of the Committee involved public consultations which included seven public meetings held throughout Saskatchewan. A broad range of business groups, private individuals and labour groups presented briefs to the Committee. In addition to these meetings, the Committee also consulted with a number of academics, professional economists and tax policy specialists from across the country to discuss broader tax policy issues.

The Committee submitted its report on November 24, 2005 to the Minister of Finance who immediately released the report for public review.

The Committee's major findings were that:

< provincial taxes should be reasonably competitive with neighbouring jurisdictions to allow Saskatchewan's natural advantages to encourage economic development;

< business taxes should not unduly discourage investment and thereby restrict job creation;

< business taxes should contribute a reasonable portion of the costs of government programs and services;

< the administration of business taxes should be effective in terms of being simple, transparent, predictable, stable and creating minimal administrative and compliance costs; and,

< any tax changes must be fiscally sustainable.

The Committee concluded that although the Government's business tax incentive strategy of targeting specific economic sectors has had success in encouraging investment and job creation within those sectors, higher general tax rates on corporate capital and income are creating a significant disincentive to invest and locate in the province. In the Committee's view, a broader-based business tax strategy is now needed to encourage investment and job creation in all sectors throughout the provincial economy.

PUBLIC REACTION

Public response to the Committee's report has been widespread. Hundreds of responses were received by the Government in the form of letters and petitions and via the Internet. Views were also expressed on open-line shows and through other media.

The extent of public reaction to the Government's tax review reflects the Committee's success in raising public awareness of business taxation issues and the significance of the Committee's recommendations.

Most of the groups and individuals that have responded fully endorse the Committee's recommendations, maintaining that they are essential if Saskatchewan is to continue to grow economically and have a strong tax base from which the necessary resources will come to enhance social programs. Proponents maintained that tax reductions would mean a more positive business climate, a corresponding increase in investment and more job opportunities for Saskatchewan residents, including our youth.

Others groups and individuals had reservations about the Committee's recommendations, raising three key considerations:

- tax reductions must not lead to a return to deficits;
- tax reductions must enhance and not jeopardize valued public services such as health care and education; and,
- tax reductions alone will not be enough – Saskatchewan must also address skill shortages and generally improve business attitudes to the province to achieve measurable economic gains.

SASKATCHEWAN'S CURRENT BUSINESS TAX REGIME

Saskatchewan levies two separate taxes on corporate activity in the province: the Corporation Capital Tax (CCT) and the CIT. Businesses also pay other provincial taxes, such as the PST, the Fuel Tax and the Insurance Premiums Taxes. Saskatchewan does not levy any form of general payroll tax.

Corporation Capital Tax

Saskatchewan's general tax rate on corporate capital is currently the highest in Canada at 0.6 per cent. To offset the high tax rate, the Saskatchewan CCT incorporates a $10 million capital exemption to ensure that the tax applies to only the 1,400 largest corporations operating in the province. To improve tax competitiveness, the exemption is increased to $20 million for Saskatchewan-based businesses, resulting in a lower effective CCT rate for taxable corporations.

Saskatchewan also levies a CCT Resource Surcharge on resource corporations that is based on a percentage of the value of a corporation's resource sales. Because the Resource Surcharge only applies to companies that would otherwise be subject to the capital tax, it affects only larger resource corporations and resource trusts.

In recent years, other provinces have moved to reduce and eliminate their corporate capital taxes. British Columbia, Alberta, Prince Edward Island and Newfoundland and Labrador do not have general capital taxes. New Brunswick and Nova Scotia are gradually phasing out their capital taxes by 2009. In its recent budget, Manitoba announced its intention to phase out its capital tax, beginning with a 20 per cent rate reduction in 2008. Ontario will be phasing out its capital tax between 2007 and 2011, and Quebec is reducing its capital tax rate from 0.6 per cent to 0.29 per cent by 2009.

Provincial General Corporate Capital Tax Rates – 2006

BC	AB	SK	MB	ON	QC	NB	NS	PEI	NL
--	--	0.6%	0.5%	0.3%	0.525%	0.25%	0.275%	--	--

Based on tax rates in effect as of January 1, 2006.

Other countries are also moving away from capital taxes. The United States does not levy a general capital tax and most European nations are moving away from capital taxes. It is particularly interesting to note that northern European countries (Sweden, Denmark, Norway and Finland) that are generally considered to be higher-tax jurisdictions all avoid the taxation of capital, and instead rely on relatively high taxes on personal consumption and labour.

Capital taxes have come to be seen by all of these jurisdictions as impediments to economic growth because they are an annual tax on the assets of companies regardless of profitability. Capital taxes therefore increase the cost of investment and the risk associated with such investment. By discouraging capital accumulation, capital taxes reduce business competitiveness, stifle economic growth and negatively impact worker productivity and the development of new employment opportunities.

These negative economic implications can affect not only large businesses, but small businesses as well. Small businesses either supply large businesses with materials and services, or service the needs of a large business' work force. If large businesses are discouraged from coming to or staying in a jurisdiction, then small businesses lose their markets.

Corporation Income Tax

Saskatchewan's general tax rate on corporate income is also currently the highest in Canada at 17 per cent, while Saskatchewan's small business tax rate of five per cent (on the first $300,000 of eligible income) is generally competitive. In addition, Saskatchewan offers a reduced tax rate of as low as ten per cent for M&P profits, the lowest tax rate west of Newfoundland.

The wide differential between the 17 per cent general CIT rate and the five per cent small business tax rate discourages small business corporations from retaining income within the corporation for reinvestment and growth.

Over the past several years, other provinces have been moving to reduce their general CIT rates. As a result, Saskatchewan's general CIT rate is now out of step with neighbouring jurisdictions.

Provincial Corporate Income Tax Rates – 2006

			Small Business	
	General Rate	**M&P Rate**	**Rate**	**Threshold**
BC	12%	12%	4.5%	$400,000
AB	11.5%	11.5%	3%	$400,000
SK	17%	10%	5%	$300,000
MB	14.5%	14.5%	4.5%	$400,000
ON	14%	12%	5.5%	$400,000
QC	11.9%	11.9%	8.5%	$400,000
NB	13%	13%	1.5%	$500,000
NS	16%	16%	5%	$400,000
PEI	16%	16%	6.5%	$200,000
NL	14%	5%	5%	$300,000

Based on tax rates in effect as of January 1, 2006. Saskatchewan offers an M&P rate reduction, based on a corporation's allocation of taxable income to Saskatchewan, to reduce the general CIT rate to as low as 10%.

Provincial Sales Tax

The current PST is a retail-based levy that applies a seven per cent tax rate to a relatively broad range of goods and a smaller range of services consumed in the province. The current PST rate is competitive with all other jurisdictions except for Alberta, which does not levy a sales tax.

Provincial Sales Tax Rates

BC	SK	MB	ON	QC	NB	NS	PEI	NL
7%	7%	7%	8%	7.5%*	8%	8%	10%*	8%

* Quebec and PEI apply sales tax on top of the GST, resulting in effective tax rates of 8.025% and 10.7%, respectively.

The taxation of business inputs, both capital investments and operating costs, accounts for about 54 per cent of Saskatchewan's annual PST revenue. From a business competitiveness perspective, the PST adds to the cost of investing and operating in Saskatchewan. From an economic perspective, the PST paid by businesses on their inputs often becomes embedded in the final price of goods and services that are either sold to Saskatchewan consumers or exported from the province. In both cases, this "tax cascading" can make the final price of Saskatchewan-produced goods and services less competitive with commodities produced elsewhere.

In addition to having to pay the PST on many of their inputs, Saskatchewan businesses have to collect and remit the PST on their sales to Saskatchewan consumers. Businesses also collect and remit the federal Goods and Services Tax (GST). Since the PST and the GST are each administered independently by the provincial and federal governments, they often have very different rules and reporting requirements, multiplying a business' compliance costs.

Some Canadian provinces have harmonized their sales taxes with the federal GST. The GST is a value-added tax that applies at every stage of the production and distribution of most goods and services. The GST avoids tax cascading by providing "input tax credits" to businesses to offset the taxes they paid on their inputs. In the end, only the final consumer pays the GST on the final selling price of goods and services. It also ensures that imported and domestically-produced goods bear the same amount of sales tax, while exported goods bear no sales tax. This feature significantly enhances the competitiveness of Canadian goods and services relative to foreign production.

Harmonization also simplifies sales tax administration and compliance since only one set of tax rules and one tax administrator is required. This reduces governments' administration costs and businesses compliance costs, further improving the competitiveness of Canadian products.

However, harmonization would also require the expansion of the PST to a much broader range of consumer goods and services (including children's clothing, residential heating and electricity, restaurant meals, fuel, recreational and amusement activities, construction services and many more items currently exempt from the tax).

Unless accompanied with a reduction in the sales tax rate and other offsetting policy initiatives, Saskatchewan consumers would pay additional PST under sales tax harmonization.

As an alternative to harmonization, Saskatchewan has attempted to make the application of the PST on business inputs more competitive by exempting goods for re-sale and other specific commodities used in the resource and manufacturing sectors. In 1995, Saskatchewan also introduced a non-refundable corporate income tax credit as a targeted tax measure to offset the PST paid on eligible M&P capital purchases.

COMPETITIVENESS

Saskatchewan's High General Corporate Tax Rates

Saskatchewan's statutory general corporate capital and income tax rates are currently the highest in Canada. And while the tax incentive strategy has clearly proven to be successful for the targeted sectors, a consequence of this strategy has been that Saskatchewan's statutory general business tax rates on capital and income have become less competitive with the tax rates of neighbouring jurisdictions.

Provincial General Corporate Tax Rate Adjustments

	BC	AB	SK	MB	ON
1995:					
CIT General Rates	16.5%	15.5%	17.0%	17.0%	15.5%
CCT General Rates	0.3%	--	0.6%	0.5%	0.3%
2006:					
CIT General Rates	12.0%	11.5%	17.0%	14.5%	14.0%
CCT General Rates	--	--	0.6%	0.5%	0.3%

Based on tax rates in effect as of January 1, 2006. Ontario has legislated the elimination of its CCT by 2012. Manitoba has announced its intention to reduce its general CIT rate to 13% by 2008 and phase out the general CCT, beginning with a rate reduction in 2008. Alberta has announced the reduction of its general CIT rate to 10% effective April 1, 2006.

Competitive statutory tax rates are important because a business' review of a jurisdiction's tax competitiveness begins with a comparison of the statutory tax rates between jurisdictions, rather than the intricacies of the individual provincial taxes. An example has been Saskatchewan's $20 million CCT exemption. This exemption level is the largest in Canada and helps to reduce the effective rate of the CCT for taxable corporations. However, most businesses look no further than Saskatchewan's 0.6 per cent tax rate and conclude that Saskatchewan's tax regime is not conducive to capital investment.

The growing disparity between Saskatchewan's general corporate tax rates and those of neighbouring provinces has had both a financial and attitudinal effect on prospective investors. If businesses perceive Saskatchewan to be a high-tax, investment-unfriendly jurisdiction, then this will create both a disincentive to new investment as well as an incentive to shift income and capital to lower tax rate jurisdictions.

The interprovincial tax rate differentials have also led many companies to take advantage of a variety of strategies to minimize the amount of income they are required to allocate to Saskatchewan, referred to as "income shifting" for tax purposes. These strategies include the relocation of head office activities, the use of contract labour, the leasing of capital assets and several methods to transfer revenue between related corporations in different jurisdictions. These activities each result in the shifting of taxable income and capital away from Saskatchewan for tax purposes.

High corporate tax rates have also contributed to the development of income trusts as a way of avoiding corporate taxes.

Income Trusts

Until very recently, general CIT rates have been relatively high across the country and this has contributed to the development of income trust structures to act as tax planning mechanisms for investors and corporations, flowing capital to corporations and earnings back to investors. By flowing its earnings out through an income trust, a corporation is able to avoid the payment of corporate income taxes. Instead, the income remains untaxed until it is received by the investor, who pays at personal income tax rates. This structure allows investors to receive a higher after-tax return on investments than if the corporate income were taxed at both the corporate and personal levels.

An implication of the income trust phenomenon is that the taxation of corporate income and capital in Canada does not necessarily occur in the province where the profits are earned and the capital is physically located. For example, if a corporation, which might be financed by investors who reside mainly outside of the province, does business in Saskatchewan, then the corporation will pay tax in Saskatchewan in recognition of its economic activity and the public goods it benefited from. However, if the corporation converts to an income trust structure, then Saskatchewan may not derive any income or capital tax revenue from its activity in the province.

Income trusts are therefore contributing to the shifting of corporate income and capital between provinces for tax purposes. To the extent that income and capital is shifted to tax exempt entities, such as pension funds, and to non-residents of Canada, the income trust phenomenon becomes an important issue for all Canadian governments.

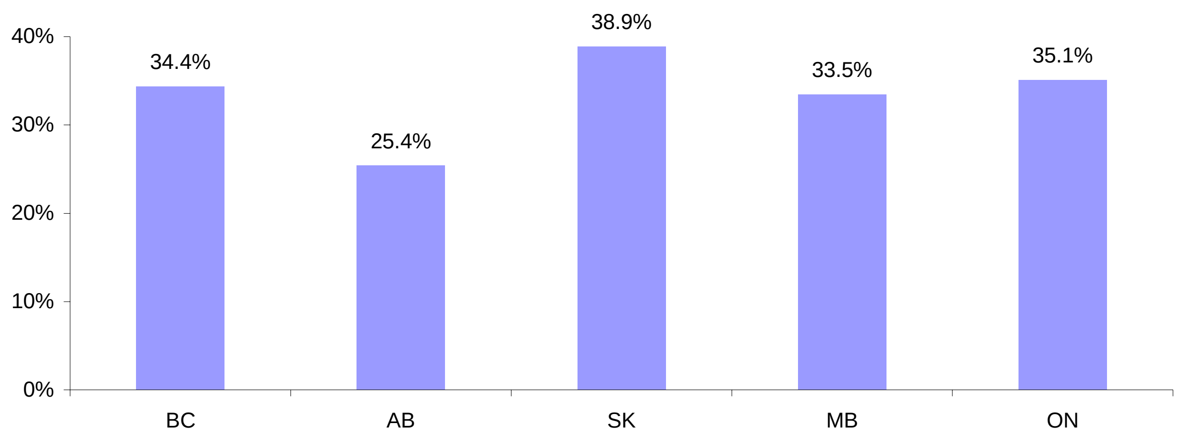
The federal government has proposed to address this issue through improvements in the way investors are taxed on corporate dividends. Saskatchewan will consider possible changes to the provincial taxation of dividend income once details of the federal changes are

Other Measures of Saskatchewan's Tax Competitiveness

Saskatchewan's statutory tax rates are not the only tax competitiveness comparisons that businesses look to in deciding upon locations for new capital investments. Businesses also compare the marginal effective tax rates (METRs) and the average tax rates of jurisdictions. Saskatchewan's standings with respect to both of these measurements is not favourable. Saskatchewan's METRs are the highest in the country, according to a recent study published by the federal government[2], and Saskatchewan's business tax load, or average business tax rate, is also very high.

METR analysis provides a way of comparing the relative effect of business taxes on capital investment attractiveness between jurisdictions. METRs incorporate all of the various taxes that become payable as a result of incremental capital investment, including corporate capital and income taxes and sales taxes on capital acquisitions.

Provincial Marginal Effective Tax Rates
Projected for 2010

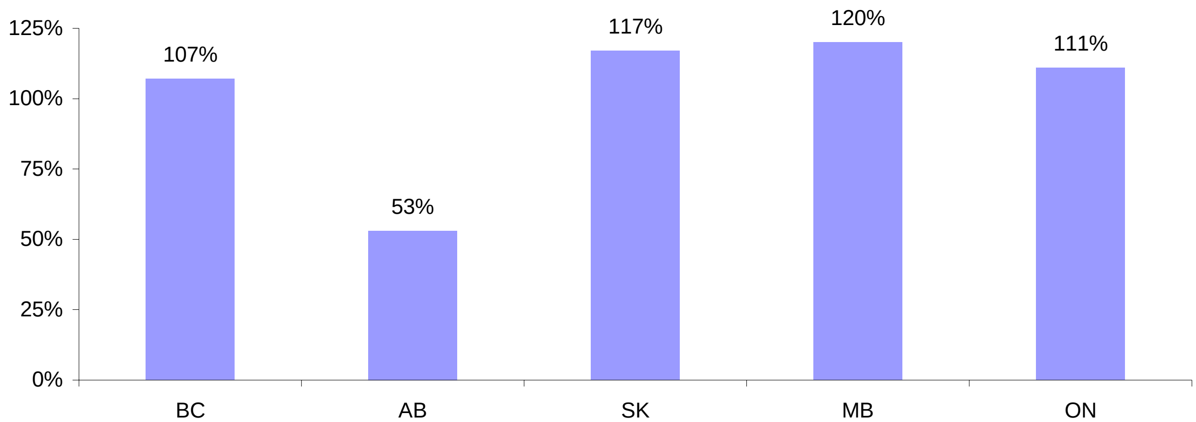


Source – Finance Canada.
Note: The BC, Alberta and Manitoba METRs do not incorporate recently announced tax reductions (BC's CIT rate reduction from 13.5% to 12.0%; Alberta's CIT rate reduction from 11.5% to 10%; Manitoba's announced CIT rate reduction from 14% to 13% and CCT rate reduction from 0.5% to 0.4%).

[2] "Marginal Effective Tax Rates on Business Investment." Tax Expenditures and Evaluations 2005. Canada, Department of Finance. November 2005: 39

A comparison of average tax rates examines the net tax liability on a business' total income or investment, and incorporates the various tax exemptions and incentives that may be available. An analysis of provincial business tax loads can be used as a proxy to examine average tax rates on an aggregate basis, and indicates that Saskatchewan's average tax rate ranks as second highest in Canada, about 17 per cent higher than the national average.

Provincial Business Tax Loads
Indexed to Provincial Average at 100%



Source – Saskatchewan Finance using October 2005 federal Equalization data for 2002-03 to 2004-05.
Note: The BC, Alberta and Manitoba figures do not incorporate recently announced tax reductions (BC's CIT rate reduction from 13.5% to 12.0%; Alberta's CIT rate reduction from 11.5% to 10%; Manitoba's announced CIT rate reduction from 14% to 13% and CCT rate reduction from 0.5% to 0.4%).

SASKATCHEWAN'S BUSINESS TAX REFORM

The Government of Saskatchewan is introducing a major reform of the business tax system that will result in a significant reduction in business taxes. This reform begins immediately and will be fully implemented by July 1, 2008.

Key components of the reform include eliminating the general CCT and significantly reforming the provincial CIT structure. These initiatives will help to create an improved business climate for the province, promote sustainable economic development and expand employment opportunities for all Saskatchewan residents. A stronger, expanding and more diversified economy will be better able to support the public programs that Saskatchewan people depend on, including improved health care, education and training and infrastructure.

Corporation Capital Tax

Commencing July 1, 2006, Saskatchewan will begin a phased elimination of the general CCT rate for all corporations, other than provincial Crown corporations and financial institutions, to be completed July 1, 2008. Provincial Crown corporations, which are exempt from the CIT, will continue to pay the CCT in order to provide a degree of tax competitiveness with the private sector. Financial institutions will continue to pay CCT to partially compensate for their very low allocations of taxable income for Saskatchewan CIT purposes.

In addition, new capital investments made by corporations eligible for the phased elimination of the general CCT will be exempt from the CCT during the transitional period. Qualifying investments will be defined in legislation and will include additions to a corporation's depreciable capital property in Saskatchewan between July 1, 2006 and June 30, 2008. New and replacement capital investments will generally qualify, but non-arm's length transactions will be excluded.

In conjunction with the phased elimination of the general CCT rate, Saskatchewan will reduce the CCT Resource Surcharge rates levied on Saskatchewan resource production. The general Surcharge rate will be gradually reduced from 3.6 per cent of resource sales to 3.0 per cent, and the special rate for fourth tier oil and gas production will be reduced from 2.0 per cent of resource sales to 1.7 per cent.

Corporation Capital Tax Reform
Implementation Plan

	Current	**2006***	**2007***	**2008***
General CCT Rate				
- existing capital	0.6%	0.3%	0.15%	-
- new capital	0.6%	-	-	-
CCT Surcharge Rates				
- general rate	3.6%	3.3%	3.1%	3.0%
- 4^{th} tier oil rate	2.0%	1.85%	1.75%	1.7%

* All measures effective July 1 of each year.

Corporation Income Tax

Commencing July 1, 2006, Saskatchewan will begin a phased reduction of the general CIT rate from 17 per cent to 12 per cent, to be completed July 1, 2008.

Commencing July 1, 2006, Saskatchewan will also begin a phased increase of the income threshold to which the five per cent small business tax rate applies, from the current $300,000 to $500,000, to be completed by July 1, 2008.

Corporation Income Tax Reform
Implementation Plan

	Current	2006*	2007*	2008*
General CIT Rate	17%	14%	13%	12%
Small Business Threshold	$300,000	$400,000	$450,000	$500,000

* All measures effective July 1 of each year.

Effective immediately, the existing ITC for M&P capital acquisitions will be converted into a refundable tax credit for all capital acquisitions occurring after Budget night. All other eligibility rules for earning new ITCs will remain the same as under the current program. Unclaimed ITC balances earned prior to this announcement will have their carry forward period extended to ten years from the current seven years, allowing more time for companies to utilize these outstanding balances.

Investment Tax Credit Reform
Implementation Plan

	Current	2006*	2007	2008
ITC on M&P Capital – Future	Non-Refundable	Fully Refundable		
ITC on M&P Capital – Prior		Extend Carry Forward to 10 Years		

* Changes to the ITC on M&P capital are effective as of April 7, 2006.

Royalty Tax Rebate

In 1974, as a consequence of the federal government eliminating the deductibility of provincial resource royalties for federal and provincial CIT purposes, Saskatchewan introduced the Royalty Tax Rebate Program to effectively ensure that provincial royalties and similar taxes remained fully deductible for Saskatchewan CIT purposes.

The federal government has now reversed its position and in 2003 began phasing in deductibility of provincial resource royalties, with full deductibility to be achieved January 1, 2007.

With the return to full deductibility of resource royalties, the Royalty Tax Rebate is no longer necessary and will be allowed to wind down. However, many resource corporations continue to have unused Royalty Tax Rebate balances. Commencing January 1, 2007, the carry forward period for these outstanding balances will be limited to seven years.

Sales Tax

As part of its review of business taxes, the Government examined the PST and noted that any reform of Saskatchewan's PST structure will have major implications for provincial residents. While harmonization of the PST with the federal GST would improve the competitiveness of provincial businesses and could potentially benefit the overall provincial economy, it would also expand the sales tax base to many consumer goods and services that are currently taxed by the GST but not by the PST.

Before making any decision in favour of or against harmonization, Saskatchewan needs to carefully weigh the various advantages and disadvantages against each other. In addition, Saskatchewan needs to ensure that it has the fiscal resources to support a major sales tax reform. The Government is therefore deferring further consideration of sales tax harmonization or other PST reforms.

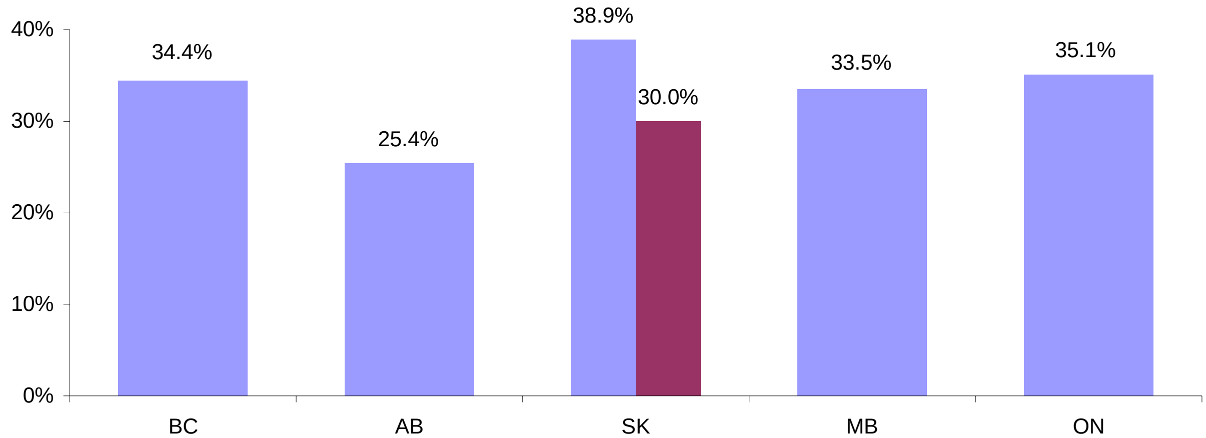
IMPACTS OF BUSINESS TAX REFORM

Business Tax Competitiveness

Saskatchewan's business tax reform will significantly improve the province's competitive standing. Statutory tax rates will quickly be brought back into line with neighbouring jurisdictions. This alone should have an immediate impact on investor and business attitudes towards Saskatchewan. Statutory tax rates are the most transparent means of demonstrating the investment "friendliness" of a jurisdiction.

Saskatchewan's marginal effective and average tax rates will also become much more competitive as a result of tax reform. Saskatchewan's overall METR will fall 8.9 percentage points, from 38.9 per cent to 30.0 per cent.

Provincial Marginal Effective Tax Rates
Saskatchewan Before and After Tax Reform



Source – Finance Canada

Note: The BC, Alberta and Manitoba METRs do not incorporate recently announced tax reductions (BC's CIT rate reduction from 13.5% to 12.0%; Alberta's CIT rate reduction from 11.5% to 10%; Manitoba's announced CIT rate reduction from 14% to 13% and CCT rate reduction from 0.5% to 0.4%).

Saskatchewan's current tax regime benefits certain sectors of the economy more than others. For example, the resource, manufacturing and agricultural sectors have relatively lower marginal costs of investment than the construction and service sectors. Tax reform will benefit all sectors of the economy, improving both the allocation of capital investment across sectors and the diversification of the provincial economy.

The impact of tax reform on the METRs of various sectors is illustrated in the following table.

Saskatchewan Marginal Effective Tax Rates by Sector

Sector	Pre-Reform	Post-Reform	Reduction
Agriculture	20.8%	8.9%	11.9%
Construction	45.4%	37.3%	8.1%
Forestry	28.6%	20.4%	8.2%
Manufacturing	30.9%	21.6%	9.3%
Retail Trade	43.5%	34.5%	9.0%
Transport & Storage	36.8%	27.3%	9.5%
Wholesale Trade	44.2%	35.7%	8.5%
Other Services	48.2%	41.1%	7.1%
All Sectors	38.9%	30.0%	8.9%

Source – Finance Canada

Eliminating the general CCT and significantly reforming the CIT structure will make Saskatchewan's average business tax rate competitive. The average business tax rate, based on a measurement of Saskatchewan's business tax load, will decline from being the second highest in Canada to being competitive with other provinces.

Whether a business looks to statutory, marginal or average tax rates, Saskatchewan's tax system will now be much more attractive on all counts and will support the province's other competitive advantages – such as a highly productive workforce, low cost of commercial property, competitive utility and insurance costs and high quality public services.

Competitiveness – Specific Sectors

Value-added Industries

Saskatchewan business tax reform will maintain and enhance the existing competitive advantages of the tax system for the M&P sector. Saskatchewan's CIT rate on M&P profits is currently as low as ten per cent for Saskatchewan-based companies and this tax incentive will continue under tax reform. Saskatchewan is one of only three provinces to offer a reduced tax rate for M&P companies. None of the other western provinces offer this incentive for value-added industries.

Business Tax Rates on M&P Activity (including announced policy intentions)					
	BC	**AB**	**SK**	**MB**	**ON**
CIT rate	12%	10%	10%	13%	12%
CCT rate	--	--	--	0.4%	--
PST on capital	exemptions	--	ITC	ITC	exemptions
Labour-based levies	yes	yes	no	yes	yes

Based on information known as of March 24, 2006. Labour-based levies include business payroll taxes, and health care premiums which are often paid by employers on their employees' behalf. Saskatchewan offers an M&P rate reduction, based on a corporation's allocation of taxable income to Saskatchewan, to reduce the general CIT rate to as low as 10%.

M&P companies will also benefit from specific business tax reforms. Large M&P companies will of course benefit from the elimination of the general CCT. For small and medium-sized Saskatchewan M&P companies, the expansion of the small business threshold to $500,000 will allow more of the income of these companies to be taxed at the small business tax rate. The reduction of the general CIT rate will reduce the taxes payable on the portion of an M&P company's income that is derived from non-M&P activities.

In addition to these benefits from tax reform, the tax incentive for capital investments in the M&P sector is being enhanced. By converting the ITC for M&P capital acquisitions into a refundable tax credit, the timeliness of ITC benefits will be improved for companies that are in the initial years of development or that are expanding operations. These companies may not be currently taxable and the refundability of the ITC will assist with cash flow and financing issues.

The base on which the ITC is determined includes the cost of installing eligible M&P machinery and equipment. As a result, the ITC is generally greater than the amount of the PST a business would have paid on the purchase of the asset.

Finally, the M&P sector will also continue to benefit from a number of PST exemptions, including exemptions for direct agents, which are materials that are consumed in the manufacturing process, and for electricity used in the manufacturing process.

Saskatchewan's M&P-specific incentives will provide benefits that are estimated to be worth $48.4 million to the value-added sector in 2006. These incentives ensure that Saskatchewan remains one of the most competitive jurisdictions in the country for value-added industries.

Small Businesses

Small businesses also benefit from business tax reform. The expansion of the small business threshold from $300,000 to $500,000 is the most obvious change to benefit small businesses. This change increases the amount of income that is eligible to be taxed at the special five per cent CIT rate and offers small businesses the opportunity to expand their operations in Saskatchewan.

Corporate Income Tax Rates and Thresholds on Small Business Income (including announced policy intentions)

	BC	AB	SK	MB	ON
Rates	4.5%	3.0%	5.0%	3.0%	5.5%
Thresholds	$400,000	$400,000	$500,000	$400,000	$400,000

Based on information known as of March 24, 2006.

Small businesses will also benefit from the other business tax reforms. The reduction in the general CIT rate from 17 per cent to 12 per cent will reduce the rate differential between the small business and general tax rates from 12 points to only seven points. This change removes a significant deterrent to expansion for small businesses and will now give these businesses a greater incentive to retain income in the corporation for reinvestment and to grow into medium and larger-sized businesses.

Federal/Provincial Corporate Income Tax Rates on Small Business Income (including announced policy intentions)

	BC	AB	SK	MB	ON
up to $300,000	16.5%	15%	17%	15%	17.5%
$300 - $400,000	23.5%	22%	24%	22%	24.5%
$400 - $500,000	31%	29%	24%	32%	33%
over $500,000	31%	29%	31%	32%	33%

Based on information known as of March 24, 2006.

Small businesses engaged in value-added production will be the largest beneficiaries of the conversion of the ITC for M&P capital acquisitions into a refundable tax credit. These businesses have the greatest difficulty in dealing with the financing for new capital investments and it often takes a number of years before they are in a position to claim the benefits of the former non-refundable tax credit. In some cases, the non-refundable tax credit expires before the company is ever able to claim it. Making the tax credit refundable will eliminate these concerns for small M&P businesses.

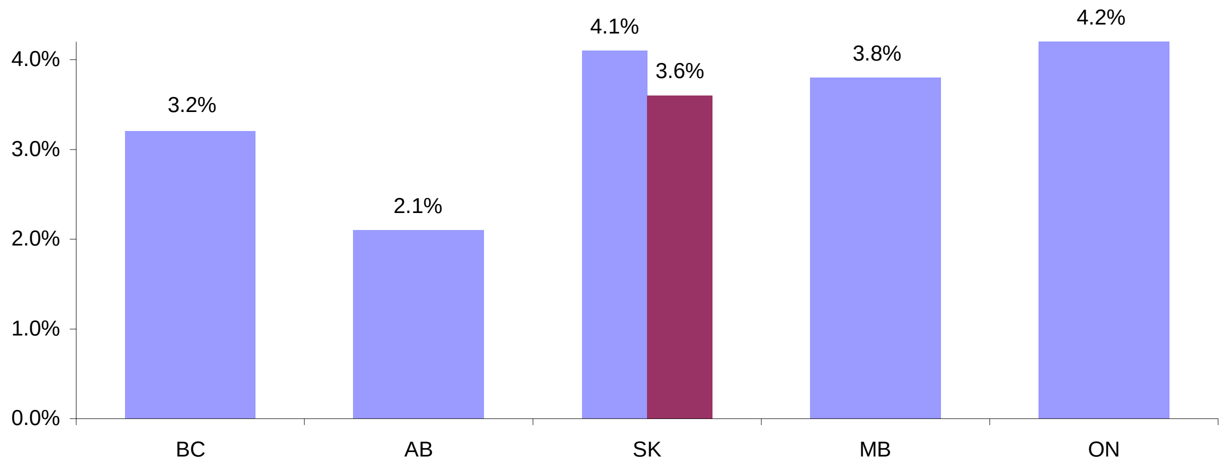
Finally, the elimination of the general CCT also benefits small businesses. Small businesses often depend on large businesses as the market for their products and services. Without a strong large business sector, small businesses also suffer. To the extent that the elimination of the general CCT makes Saskatchewan more attractive to new investment by large corporations, small businesses will benefit in the form of new and growing commercial customers and from the increase in consumer demand from the employees and families of those large businesses.

Contribution to Public Services

Businesses derive many direct and indirect benefits from the public goods that are provided by governments and financed through taxes. Businesses should therefore be expected to pay provincial taxes, and these taxes must balance the competing interests of ability-to-pay and tax competitiveness.

Saskatchewan's business tax reform will reduce business tax revenue as a percentage of provincial Gross Domestic Product (GDP) from 4.1 per cent to 3.6 per cent, which is representative of the national average. However, tax reform will also encourage businesses both to expand and to increase their income and capital allocations to Saskatchewan, resulting in an expansion of the provincial revenue base.

Business Taxes as a Percentage of GDP
Saskatchewan Before and After Tax Reform



Economic Impacts – Investment and Employment

Reducing Saskatchewan's general corporate tax rates should have an immediate effect on the province's investment attractiveness. The tax changes will improve investor perception of Saskatchewan's attractiveness by having a direct impact on the expected rates of return on capital investments in Saskatchewan.

Economic modelling of Saskatchewan's tax reforms, conducted by the federal government, has predicted that the higher after-tax return on capital resulting from tax reform will have a strong stimulant effect on investment in all sectors of the provincial economy. In particular, the manufacturing, construction and resource sectors will experience significant investment growth (with long-term investment over nine per cent higher than could otherwise be expected in these sectors).

Expanding capital investment is expected to result in increased economic growth and employment, greater employee productivity, higher wages and greater personal consumption. Employment will be positively impacted not only by stronger economic growth, but also by higher wages. It is expected that tax reform will result in long term economic growth and wage growth that are each at least three per cent greater than could otherwise be expected.

These economic impacts will translate into tangible benefits for Saskatchewan residents. A growing economy generates more and better employment opportunities in a broader range of occupations, particularly for Saskatchewan's youth.

Financial Implications

The following table illustrates the implementation plan for Saskatchewan's business tax reform initiative:

Business Tax Reform
Implementation Plan

	Current	**2006***	**2007***	**2008***
General CCT Rate				
- existing capital	0.6%	0.3%	0.15%	-
- new capital	0.6%	-	-	-
CCT Surcharge Rates				
- general rate	3.6%	3.3%	3.1%	3.0%
- 4th tier oil rate	2.0%	1.85%	1.75%	1.7%
General CIT Rate	17%	14%	13%	12%
Small Business Limit	$300,000	$400,000	$450,000	$500,000
ITC on M&P Capital – Future	Non-Refundable	Fully Refundable		
ITC on M&P Capital – Prior		Extend Carry Forward to 10 Years		

* All measures effective July 1 of each year unless otherwise stated. Changes to the ITC on M&P capital are effective as of April 7, 2006.

When fully implemented in 2008, business tax reform will result in an overall reduction in provincial tax revenue of about $190 million annually.

Fiscal Impact of Business Tax Reform
($ millions)

	2006-07	2007-08	2008-09	2009-10
Capital Tax Reforms	$48.8	$82.6	$108.9	$120.2
Income Tax Reforms	$46.5	$88.2	$109.6	$119.8
Subtotal	$95.3	$170.8	$218.5	$240.0
Reversal of income shifting*		($15.0)	($40.0)	($50.0)
Total	**$95.3**	**$155.8**	**$178.5**	**$190.0**

* Income shifting refers to the tax leakage that occurs when businesses re-allocate taxable income and capital to lower tax rate jurisdictions through legitimate tax planning.

Business tax reform is expected to significantly reduce the tax incentive for corporations to shift taxable income and capital away from Saskatchewan. In addition, tax reform may also encourage some corporations to increase their allocations to Saskatchewan from other jurisdictions. Based on independent analysis[3], it is estimated that a reversal of income shifting will occur, enhancing Saskatchewan's share of corporate taxable income by as much as ten per cent. Such a reversal would generate an incremental $50 million of revenue annually for the provincial treasury, once business tax reform is fully implemented.

[3] Guillemette, Yvan and Jack Mintz. "Corporate Income Shifting: An Analysis". Final Report of the Saskatchewan Business Tax Review Committee. November 2005: p.133

CONCLUSION

Saskatchewan's business tax reform successfully addresses the Government's objective of establishing an improved business climate in Saskatchewan in order to further develop and diversify the provincial economy and expand employment opportunities for all Saskatchewan residents.

The Government recognizes that business tax reform alone is not enough – that a growing economy needs a well-trained, highly-skilled workforce, world-class infrastructure and high quality public services. To ensure all of these elements are also in place will require continued public investment, which must be financed through a strong provincial revenue base fuelled by future economic growth.

The development of both the provincial economy and provincial social programs must therefore progress together. Business tax reform represents an important step in the Government's plan for growth and opportunity for all Saskatchewan residents.