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Business Tax Review Committee

Business Tax Review Committee Recommends Major Tax Reform Plan

The Business Tax Review Committee (BTRC) presented Saskatchewan's Finance Minister its final report on provincial business taxes today.

The report offers key recommendations to improve the climate for business investment and job creation in the province, such as phasing out the general Corporation Capital Tax (CCT) rate, reducing the general Corporation Income Tax (CIT) rate to 12 per cent, and increasing the small business limit to \$500,000.

The report also supports harmonizing the Provincial Sales Tax (PST) with the federal Goods and Services Tax (GST), although further dialogue and review is necessary over the course of 2006-07 before definitive action can be initiated.

“Our report considers the views and recommendations of a broad range of Saskatchewan residents from all parts of the province including business owners, labour leaders, economists, tax professionals and private citizens,” said Jack Vicq, Chair of the BTRC. “Strong public interest in this process resulted in a number of creative ideas coming forward.”

The BTRC was formed in late March of this year to independently examine the impact of Saskatchewan's business taxes on the province's economic and business climate. The Committee was asked to find answers to six main questions:

- **How does Saskatchewan's business tax rates and levels compare with other jurisdictions?**
- **What is the impact of lowering various taxes on Saskatchewan's competitive position?**
- **What changes in Saskatchewan's tax mix would result in the largest economic return for the province as a whole?**
- **Does the Province rely too heavily on capital-based taxation?**
- **Are there changes to existing business subsidies and tax expenditures that could assist in improving Saskatchewan's tax competitiveness?**
- **What changes can be made that are sustainable within the Province's fiscal plan?**

“A consensus emerged during our consultations that Saskatchewan’s business tax structure was clearly uncompetitive and outdated,” added Vice Chair Charlie Baldock. “Our overdependence on corporate taxes – highlighted by the highest provincial general tax rates on corporate income and capital – is a major disincentive to investment and job creation in the province.”

Business groups unanimously agreed that the reform of provincial business taxes must be affordable, sustainable and carried out through a fully legislated multi-year plan.

The Committee undertook extensive deliberations involving many outside experts that contributed to the review of business taxes. In particular, the Sask Trends Monitor, C.D. Howe Institute and Finance Canada undertook detailed economic and tax analysis for the Committee. Saskatchewan Finance also provided background analysis on tax policy issues and the fiscal consequences of the Committee’s recommendations.

“We were fortunate to have so much assistance for our review,” said Committee member Cheryl Shepherd, adding that “all participants in our review can take a large measure of credit for our results.”

The BTRC recommendations are as follows:

- **The general CCT rate of 0.6 per cent be phased out by July 1, 2008, beginning with halving the rate on July 1, 2006;**
- **The CCT Resource Surcharge imposed on larger resource companies be transferred, on a revenue neutral basis on July 1, 2008, to the resource royalty structure;**
- **The general CIT rate be reduced from 17 per cent to 12 per cent by July 1, 2008, beginning with a reduction to 14 per cent on July 1, 2006;**
- **The small business limit be increased from \$300,000 to \$500,000 by July 1, 2008, beginning with an increase to \$400,000 on July 1, 2006; and,**
- **The existing Investment Tax Credit (ITC) be made refundable for future M&P capital acquisitions, and the time frame for applying past unused ITCs be extended from seven to ten years.**

The Committee strongly believes all the recommendations in the corporate tax reform, including transitional provisions, should be legislated during the 2006-07 Session of the Saskatchewan Legislature. It recommends the implementation plan presented in the table below.

Business Tax Reform				
Implementation Plan	Current	2006*	2007*	2008*
General CCT Rate	0.6%	0.3%	0.15%	-
CCT Surcharge	Transfer to Royalty Structure by 2008			
General CIT Rate	17%	14%	13%	12%
Small Business Limit	\$300,000	\$400,000	\$450,000	\$500,000
ITC on M&P Capital – Future	Fully Refundable after Announcement Date			
ITC on M&P Capital – Prior	Extend Carry Forward to 10 Years			

* All measures effective July 1 unless otherwise stated.

The Committee also strongly supports the harmonization of the PST with the federal GST, as it would significantly improve the competitiveness of the provincial tax system. About \$500 million in PST is currently paid annually on business purchases, which discourages business investment in the province.

“The introduction of harmonization should follow the completion of further public consultations and the achievement of a sustainable fiscal context in which harmonization can be successfully implemented”, said Vicq, adding that “we recommend that the basis for harmonization would be the acceptance of the GST base applied at a rate of 5 per cent, resulting in a combined federal-provincial rate of 12 per cent in Saskatchewan”.

“Saskatchewan’s business tax structure is outdated and poorly suited to deal with the competitive challenges of today and the future,” Vicq concluded. “Our heavy reliance on the taxation of business capital and income sends the wrong message to prospective investors. We believe that our recommendations will send a strong signal to the business community that, indeed, *The Future is Wide Open* in Saskatchewan.”

The Saskatchewan public can access the report at <http://www.gov.sk.ca/btrc/>

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