

## EXECUTIVE SUMMARY

### General Observations

The Committee began work in April 2005 and wrapped up its consultation process in June. We have heard from a number of different organizations representing business, labour and community groups. We held seven public meetings throughout Saskatchewan and heard from economic development agencies, business owners and operators, business organizations representing all sectors of Saskatchewan's economy, members of labour unions and organizations providing advice to businesses.

The Committee would like to thank each of those individuals and organizations that took time to present their views to us. A complete list of these submissions is included in Appendix A and most of the submissions received can be read on our web site at: [www.gov.sk.ca/finance/btrc/info.html](http://www.gov.sk.ca/finance/btrc/info.html)

Each of the presentations was helpful in our deliberations. In addition to the information in these presentations and information available from Saskatchewan Finance, we consulted with a number of outside agencies and individuals in the private and public sectors.

Our terms of reference directed us to assess the business tax regime in terms of its competitiveness and effectiveness in encouraging job creation and investment in Saskatchewan. In addition, our "evaluation framework" included administrative issues, the share of revenue received from the business sector and whether or not any changes recommended would be sustainable within the Province's fiscal plan.

During our meetings, we asked participants for their views on whether or not a business tax regime should be broad-based<sup>1</sup> or have targeted provisions for certain types of businesses or activities. These views formed an essential part of our deliberations. Generally, the consensus was that a broad-based tax regime is preferable.

Since the inception of the Committee, Kirk McGregor, Assistant Deputy Minister, has been our liaison with Saskatchewan Finance. Mr. McGregor, Mr. Arun Srinivas and the rest of his staff have been an invaluable source of material required for our background work and for the answers to a continuous stream of "what if" questions. We have also relied on economic and statistical analysis carried out for us by officials at Finance Canada, by Sask Trends Monitor and by the C.D. Howe Institute. The computer-based economic modelling was essential for our deliberations.

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<sup>1</sup> Terms, such as this, are described in the Glossary of Terms presented in Appendix B.

## Recommendations

As a result of our consultations and deliberations, we believe that significant reform of business taxes is necessary for Saskatchewan to secure a prosperous economic future.

We are presenting a multi-year business tax plan that focuses on improving the investment climate in the province. Our analysis concludes that the Province's business tax structure is currently too heavily weighted toward capital-based taxation, with the result that business profits are being exported and invested elsewhere.

We present our recommendations in two segments: a corporate tax reform and a sales tax reform. We recommend that the corporate tax reform be implemented beginning July 1, 2006. We further recommend that the sales tax reform be deferred subject to the Province completing broad consultations with Saskatchewan residents and successful negotiations with the federal government.

## Corporate Tax Reform

We believe that corporate tax reform is essential if the province is to become competitive and if business capital investment is to increase, resulting in the creation of jobs.

- 1. We recommend that the general Corporation Capital Tax (CCT) rate of 0.6 per cent be eliminated for all corporations other than Crown corporations.**

This recommendation would eliminate the serious deterrent to capital investment in the province by larger non-financial corporations and make Saskatchewan more competitive with other western provinces. It would also significantly reduce Saskatchewan's revenue reliance on business taxes that are not profit sensitive.

This recommendation maintains the current CCT rates on financial institutions and the application of the current general CCT rate at 0.6 per cent on provincial Crown corporations.

- 2. We recommend that the CCT Resource Surcharge imposed on larger resource companies be transferred, on a revenue neutral basis, to the resource royalty structure.**

The Committee believes that the CCT Resource Surcharge generally exhibits the characteristics of a royalty. Transferring the Surcharge to the royalty structure would improve transparency and reduce taxpayer and government administration.

We acknowledge that this recommendation would cause a shift in tax incidence among companies and, potentially, among resource sectors. One significant issue is that resource producers that are exempt from the Surcharge could face higher royalties as a result of this change. The Committee therefore recommends deferral of this transfer until full implementation of the corporate tax reform to permit adequate industry consultation to address these issues.

During the interim period when the general CCT rate is being phased out, we recommend that the Surcharge payable by the resource producer continue to be reduced by a notional 0.6 per cent general CCT rate. This would ensure an equitable distribution of CCT savings during the transition period.

**3. We recommend that the general Corporation Income Tax (CIT) rate be reduced from 17 per cent to 12 per cent.**

This recommendation would result in:

- a more neutral tax regime, removing an impediment to business expansion and investment caused by the significant difference between the small business tax rate and the general rate;
- a general CIT rate that is competitive with western provinces and would significantly reduce the costs associated with capital investment in Saskatchewan; and,
- a higher allocation of corporate profits to Saskatchewan for income tax purposes – an allocation that is more consistent with economic activity, resulting in higher provincial revenues.

When the recommended CIT rate reduction is combined with the recommended phase-out of the general CCT rate, a significant reduction would occur in the tax on new investment. The Committee believes that these reforms would increase the economic opportunities in Saskatchewan for its residents – investment means jobs.

The Committee further recommends that, as fiscal circumstances permit, the general CIT rate be reduced to ten per cent – to match the CIT rate applied to manufacturing and processing (M&P) activities.

**4. We recommend that the small business limit be increased from \$300,000 to \$500,000.**

This recommendation, when combined with a reduction in the general CIT rate, would result in a more competitive small business corporate tax regime and would allow business owners to reinvest a larger portion of their profits in expanded activities or innovation.

5. **We recommend that the existing Investment Tax Credit (ITC) for future M&P capital acquisitions be made refundable. In addition, we recommend that the time frame for applying unused ITCs be extended from seven to ten years.**

Our recommendation to make the ITC refundable would remove a significant barrier to business start-ups and expansions in Saskatchewan, as it is often difficult to attract risk capital to start-up businesses and this recommendation would decrease the cost of capital investment. It decreases the effective tax rate on capital acquisitions for companies unable to immediately apply earned ITCs against CIT payable, as it would avoid the deferral or potential loss of the ITCs. Our recommendation to extend the carry forward period for unused ITCs would provide businesses additional time to apply unclaimed tax credits.

### **Sales Tax Reform**

6. **The Committee strongly supports the harmonization of the Provincial Sales Tax (PST) with the federal Goods and Services Tax (GST), as it would significantly improve the competitiveness of the provincial tax system. The fact that about \$500 million in PST is currently paid annually on business purchases discourages business investment in the province.**

The Committee recommends that the basis of 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.

The Committee further recommends that 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.

We believe that harmonization would further improve the climate for investment and job creation by removing the PST on business investment. It would also:

- address some of the competitive concerns on the western side of the province by reducing the current PST rate from seven per cent to five per cent;
- streamline the administration of the sales taxes, as businesses would be dealing with one tax administrator; and,
- provide an enhanced audit function which could result in fairer competition between Alberta and Saskatchewan retailers.

The Committee also recognizes that there are significant financial, administrative and intergovernmental issues to be addressed in moving toward harmonization.

In particular, the Province would have to address the distributional consequences from harmonization, as final consumers would be required to pay additional sales taxes and lower income earners would pay proportionately more sales tax than upper income earners. This would require offsetting personal income tax adjustments, such as an enhancement to the refundable Saskatchewan Sales Tax Credit, to ensure that personal tax fairness is not eroded by harmonization.

An extensive consultation process with the federal government would be required to resolve the significant financial implications associated with our harmonization design, including:

- an agreement on the amount and timing of transitional payments to compensate for the revenue shortfall that would result from harmonization at the five per cent rate; and,
- a satisfactory arrangement on the treatment of natural resource revenue under the federal Equalization Program. We believe that Equalization reform is necessary to provide a fiscal “back stop” if the Province was to again become a “have not” province.

### Transition to the New Corporate Tax System

We recommend that the corporate tax measures be implemented over a three-year period commencing July 1, 2006.

**Table 1**

<b>Business Tax Reform Implementation Plan</b>				
	<b>Current</b>	<b>2006*</b>	<b>2007*</b>	<b>2008*</b>
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 strongly believes that all the recommendations in the corporate tax reform, including transitional provisions, be legislated during the 2006-07 Session of the Saskatchewan Legislature.

## Conclusion

We believe that Saskatchewan's business tax structure is outdated and poorly suited to deal with the competitive challenges of today and the future. Our heavy reliance on the taxation of business capital and income sends the wrong message to prospective investors.

We believe that the recommendations contained in this report would send a strong signal to the business community that, indeed, "*The Future is Wide Open*" in Saskatchewan.

The Premier presented a similar sentiment when he launched the *Saskatchewan Action Plan for the Economy* on September 21, 2005, when he said, "Saskatchewan has a history of overcoming challenges and seizing opportunities. The plan we unveil today reflects our belief that there can be no social progress without economic progress."<sup>2</sup>

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<sup>2</sup> "Government Unveils Action Plan for the Economy." News Release. Saskatchewan, Department of Industry and Resources. September 21, 2005. Available: <http://www.gov.sk.ca/newsrel/releases/2005/09/21-853.html>