Manufacturing & Processing Taxation in Saskatchewan: A Tool for Growth

Prepared By Matt McMillan
Research Assistant
2002

Saskatoon and District Chamber of Commerce

Building the Best Business Climate in Canada

APPENDICIES ARE NOT INCLUDED IN THE ONLINE VERSION
FOR A PRINT COPY, CONTACT THE CHAMBER

1.0 Introduction

Saskatchewan is facing numerous challenges that threaten the future ability to fund current programs

The Province of Saskatchewan is facing numerous challenges relating to growth of the overall tax base, talent retention, investment attraction, and job creation. With these challenges come others including the ability to fund healthcare, education, and other programs that enhance the quality of life for all citizens of Saskatchewan. As such, all potential solutions must be considered when attempting to address these complex difficulties.

The Saskatoon and District Chamber of Commerce has presented several discussion papers to investigate policy options designed to stimulate the currently under-performing provincial economy. These policy options offer opportunities to create a more positive business climate thereby enhancing the opportunities available to the people of Saskatchewan to pursue careers and opportunities within the province. Included in these policy options have been topics covering small business income taxation policy, property taxation policy, and labour policy.

Facing a need to continue to provide possible solutions to Saskatchewan's problems of out-migration and low growth rates, the Saskatoon and District Chamber of Commerce in this policy discussion paper has explored the potential impact of a reduction, and possible elimination, of the manufacturing and processing tax rate on corporations in Saskatchewan.

The following document outlines the concept, application, and benefits of the stimulation of our economy through the elimination of the manufacturing and processing income tax. All assumptions made in this document are noted when they occur.

2.0 Executive Summary

Employment growth has a positive impact on the economy of any jurisdiction, but growth in certain sectors has a much more profound impact on the economy because of the capital investment and investment in labour required in order to operate effectively. Manufacturing and processing are two sectors that traditionally experience higher wages than the industrial aggregate. Such sectors should receive special attention when attempting to stimulate employment and economic growth in Saskatchewan.

…growth in certain sectors has a much more profound impact on the economy…

The cost of a reduction in the income tax rate that applies to manufacturing and processing firms is $3.43 million per income tax percentage point. By reducing the income tax rate that applies to these sectors, broadly and measurably below that of other provinces, Saskatchewan will be at a competitive advantage in stimulating manufacturing and processing firm expansions and relocations to Saskatchewan, as well as stimulating new manufacturing and processing business establishment. Implementing manufacturing and processing income tax elimination would be internationally tax cost competitive. The resulting expansion and influx of manufacturing firms will cause significant growth in employment.

…resulting employment growth would reverse the trend of inter-provincial out-migration.

The resulting employment growth would reverse the trend of inter-provincial out-migration. While unemployment has not traditionally been seen as a problem in Saskatchewan, it has been masked by the migration of young, talented individuals with transferable work skills. Inter-provincial out-migration has been obscuring the unemployment rate in Saskatchewan for many years and, without this migration, the unemployment rate in Saskatchewan could very well be over 10%.

Manufacturing employment growth has significant benefits for the revenue stream of the provincial Government as there will be increased revenues from personal income tax, sales tax, and other consumption taxes like gasoline and tobacco taxes. This increase in revenues will more than compensate for the revenue temporarily delayed, not foregone, by decreasing the tax rate that applies to manufacturing and processing firms. In addition to revenue gains, this policy initiative will send a clear signal to the people of Saskatchewan, and to the rest of the world, that Saskatchewan will be a globally competitive market player.

The Government of Saskatchewan must strongly consider a decrease in the tax rate that applies to manufacturing and processing firms as a tool to stimulate economic growth, investment attraction, and job creation.

3.0 Current Structure

In Saskatchewan, there is no separate standard rate of taxation for manufacturing and processing organizations. As such, the rate that applies is that of 6% for small businesses[1] and of 17% for taxable income above the small business level.

There is a program in place called the "Manufacturing and Processing Profits Tax Reduction" as well as the "Manufacturing and Processing Investment Tax Credit" which could lead to a decrease in the rate to a level as low as 10%, varying based on the presence of the company in Saskatchewan.

The Manufacturing and Processing Investment Tax Credit is calculated based on the amount of investment in capital assets that the company has made in Saskatchewan. If a capital asset was purchased in Saskatchewan or moved into Saskatchewan, like heavy equipment, a percentage of its value can be used against taxable income. If the assets were acquired prior to March 27, 1999, they are eligible for an income tax credit in the amount of 7% of the value of the asset. If the assets were acquired after March 27, 1999, they are eligible for a tax credit in the amount of 6%. This tax credit basically refunds any provincial sales tax that was paid on the acquisition of equipment. This tax credit is non -refundable and represents savings in future income taxes to corporations of $15.9 million for the fiscal year 2001-2002.

Similar tax programs have been established in other provinces including Manitoba, which allows a reduction of up to 10% of investment, British Columbia, which allows a reduction of up to 3% of investment, and Nova Scotia, which allows a reduction of up to 30%.

It is estimated that MMPTC will save companies $24 million in 2001-2002

It is estimated that during the fiscal year 2001-2002, the "Manufacturing and Processing Profits Tax Reduction" (MPPTC) will save companies approximately $24 million in future income taxes as provided by estimates in the 2002-03 Budget for the Province of Saskatchewan.

The MPPTC form can be found in appendix C. It is calculated by taking the lesser of Manufacturing and Processing Profits less the Small Business Deduction, and taxable income less the small business deduction less the foreign business tax credit, and multiplying it by the taxable income earned in Saskatchewan divided by the taxable income earned in all provinces[2]. Next, the percentage reduction is calculated. In Saskatchewan, it is calculated by taking the taxable income earned in Saskatchewan divided by the taxable income earned in all provinces, and multiplying that by 7%. If all of a company's taxable income was earned in Saskatchewan, then the company will receive the full 7% reduction in tax. If 50% of taxable income was earned in Saskatchewan with the other 50% being earned in other provinces, then a 3.5% reduction would be available. This approach is effective at encouraging investment in Saskatchewan, however, the

[1] Small Business in Saskatchewan is defined as a business which has taxable income of $300,000 or less.
[2] 'All Provinces' includes the territories, Nova Scotia Offshore, and Newfoundland Offshore.

question becomes whether or not this level of incentive is enough to attract manufacturing and processing firms when other jurisdiction s have similar and more profound programs and policies.

While a 7% reduction in tax is attractive, Prince Edward Island has a similar program that results in a reduction of 7.5% to 8.5%. The program implemented in Newfoundland results in a reduction of 8.5% to 9.0%.

Nova Scotia seems to be a significant competitor. In fact, Nova Scotia allows up to 30% declining balance for capital cost allowance, an investment income tax credit of 10% of capital cost, and a rate that applies to manufacturing and processing firms of 10% to 15%. For eligible new businesses, there is no income tax payable on the first $200,000 of income for the first three years of business operation.

The Province of Saskatchewan must critically evaluate the current taxation policy to determine their effectiveness in attracting new business investment.

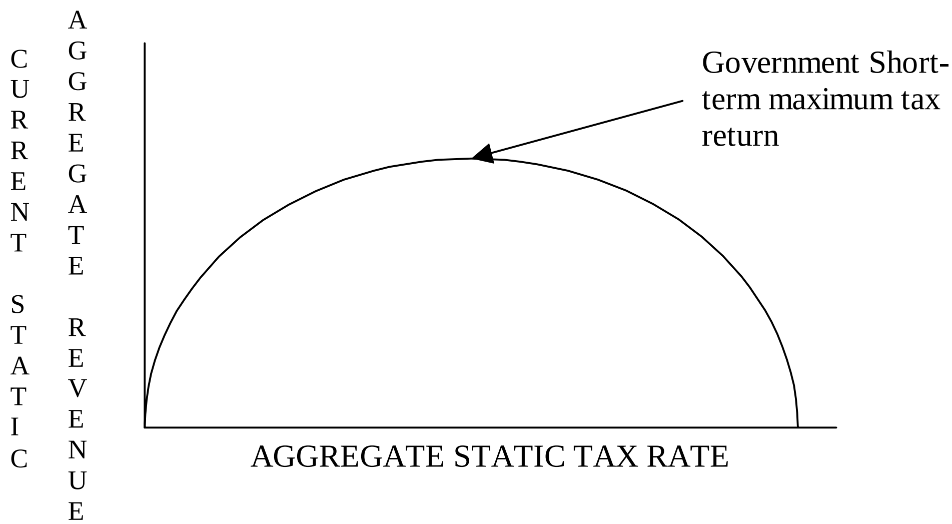
4.0 Manufacturing & Processing Tax Cuts as a Tool For Economic Stimulation

The province of Saskatchewan faces a serious challenge. It is a challenge other provinces are facing, however, there are circumstances which make each case unique. The challenge is to balance spending on social programs, including health and education, with growth stimulation tools derived through competitive tax cost positioning.

> (balancing program spending with taxation) is a delicate balance that must be achieved…

If the bulk of revenue comes from personal income taxes and rates are comparatively high, people will seek regions that deliver similar levels of service for lower rates. Meanwhile, if corporate income taxes are comparatively high, corporations will relocate or cease expanding in that re gion but instead direct investment elsewhere. It is a delicate balance that must be achieved but the analysis remains a 'snap shot' of revenue maximization. As shown by Figure 1 below, if the aggregate tax rate is too low, revenue will fall, and if the tax rate is too high, revenue will once again be lower than the optimal.

FIGURE 1

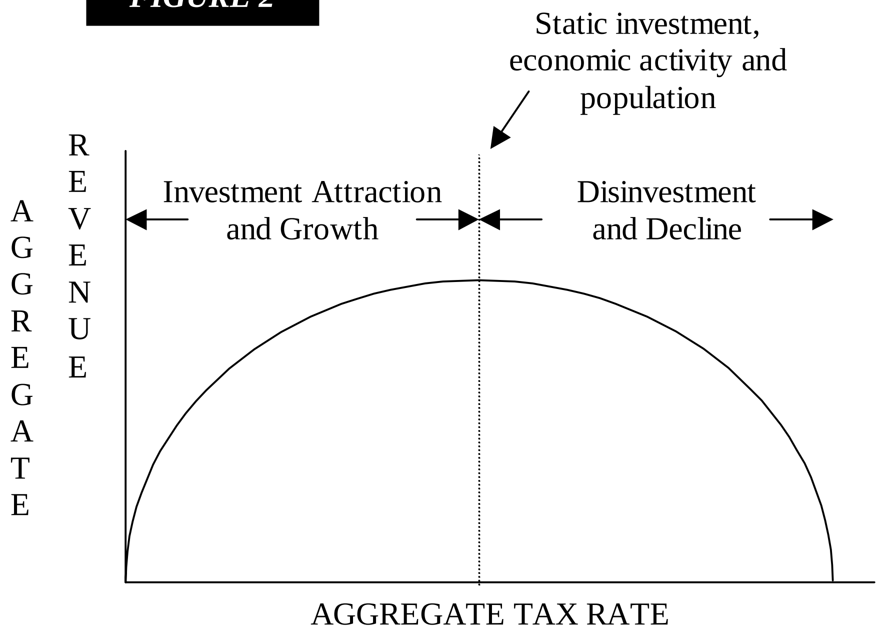


4.1 Taxation Policy Implications

Figure 1 is a very simplistic view of taxation policy and there are many other factors that need to be considered. Each factor has a different level of impact on policy decisions and can have significant consequences for the regional economy.

This document, however, is attempting to identify tools to stimulate growth. As such, if Figure 1 is adapted, the current state of Saskatchewan can be shown.

FIGURE 2



If the amount of revenue collected is lower than the maximum possible revenue because the tax rate is "too low," the region will attract investment and economic activity. In short, it will grow. Not only will it grow, but it will grow at a rate faster than that experienced when tax rates are structured to maximize short-term government revenues. Individuals and firms will identify the region as being a tax-competitive jurisdiction and will relocate. Conversely, if revenue is lower because the tax rate is too high, this indicates that people and firms are exiting the region and seeking other jurisdictions with more investment attractive taxation policies.

…the exodus is as a result of government policies such as taxation policy.

Saskatchewan has been experiencing inter-provincial out-migration for decades with no sign of this trend ending in the near future. Saskatchewan is known for an abundance of social programs, it has been rated one of the top jurisdictions in the "Places Rated Almanac" for education, it has hard working people, and quality of life is said to be amongst the best in the world. So why would people exit this market? It stands to reason that the exodus is as a result of other government policies such as a non-competitive taxation policy. This applies for both the individual and business perspectives.

While some regions pride themselves on providing generous social programs, others sell themselves as low tax jurisdictions, however in Canada, one cannot come without the other. An example of each is Saskatchewan and Ontario. Saskatchewan has a long history of wide-ranging social programs, however, with that history comes a reputation of being a high-tax area and growth in Saskatchewan has been minimal. Ontario, on the other hand, has recently moved to be a low-tax region, however, the public backlash from the cuts to social programs has made many people believe that the cuts have gone too far, causing them to seek other jurisdictions to live and work.

Each province must find low-cost methods of spurring job creation and creating opportunity within the province…

For every year that the aggregate tax rate remains below the static point, future revenue streams are enhanced. For each year the aggregate tax rate remains above the static point, future revenue streams are jeopardized.

Each province must find low-cost methods of spurring job creation and creating opportunity within the province while providing the maximum benefit for the expenditure.

Some jurisdictions may choose universally low tax rates. Alberta is a Canadian example of this strategy. Alberta has low personal income tax rates, low corporate income tax rates and sales taxes, and low to non-existent capital taxes. In addition, at least compared to Saskatchewan, Alberta also has low property tax rates.

Other jurisdictions, such as New Brunswick and Nova Scotia have chosen to pick strategic areas for highly competitive tax policies and government support. An example of this selection of industries occurred with the late 1990's introduction of the Film Investment Tax Credit. This policy change signaled to film producers that Saskatchewan was not only interested, but eager to have films produced in Saskatchewan. As such, Saskatchewan saw a dramatic increase in the number of films that were being made in the province.

4.2 Get Something or Nothing

Without business, there will be no ability to fund the programs, services, and infrastructure of the province.

All possible efforts must be made to attract new business to Saskatchewan. Without these businesses, there will be no employment, no tax base, and no ability to fund the programs, services, and infrastructure of the province.

As investment is progressively more portable, the need to be tax competitive is growing.

Let us consider a hypothetical example where a company is deciding to build a new car manufacturing facility that will employ 50 people and will require 20,000 square feet of plant space. Let us assume that this type of plant does not already exist in any of the regions being considered.

The impact of this plant being established in Saskatchewan is significant. An additional 50 people would be employed, paying income taxes, sales taxes, and contributing to the economy. If each employee earned $40,000 in taxable income per year and they began work in 2003, the government of Saskatchewan would now have an additional $220,000 per year in personal income tax revenue[3]. The capitalized value of this tax revenue is nearly $1.3 million[4] from the first year of earnings alone.

The question becomes, what does the company need in order to set up in Saskatchewan. If the company requires a corporate income tax holiday for the next ten years, should it be provided? What if the company also wants to be capital tax exempt during that ten year period? Should that be provided?

At this point, there are two options: the company establishes the plant here or somewhere else. If the benefits demanded, income and capital taxation exemptions, are provided, the province has another $220,000 in revenue through personal income taxes. If the benefits are not provided, the province gets nothing and a different region capitalizes on another missed opportunity by Saskatchewan.

The province cannot afford to continue to pass on projects that will create opportunity for the people of Saskatchewan.

This situation has, and continues, to happen in Saskatchewan. Uranium processing was an opportunity Ontario grabbed from Saskatchewan because Saskatchewan had uncompetitive policies. More still are on the horizon. The province cannot afford to continue to pass on projects that will create opportunity for the people of Saskatchewan, simply because they get greedy and attempt to grab all they can.

The approach to be the leader in business friendliness must be taken when attempting to attract business to Saskatchewan. Without private business employing people in Saskatchewan, there is no ability to fund social programs including education, health care, and others.

[3] 50 employees X $40,000 = $2,000,000 X 11% (the projected tax rate in 2003) = $220,000

[4] $(220,000)(1.06)^{30}$ = $1,263,568.06

4.3 Why choose Manufacturing & Processing?

Upon the examination of Manufacturing & Processing, several intriguing facts become evident. The "Almanac of Business and Industrial Financial Ratios 2001 Edition" shows industry average financial ratios for a variety of business sectors. When looking at these ratios, ranging from debt-equity, current, quick, and others, the one that seems to be the most important is Net Sales to Working Capital. If the level of sales achieved does not increase dramatically with an injection of working capital into the firm, then there is little argument for further examination of the manufacturing industry in Saskatchewan.

What the Net Sales to Working Capital ratio does show is that sales could range from 2.5 to 25 times working capital. In the worst-case scenario, one extra dollar of working capital available to the business results in $2.50 in additional sales. Below is a chart of various sectors and the net sales to working capital ratios associated with these business sectors:

Business Sector	**Net Sales to Working Capital**
Meat Products Processing	23.5
Petroleum Refining	24.8
Farm Machinery Manufacturing	2.5
General Industry Machinery Manufacturing	7.1
Agriculture	11.6
Copper, Lead, Zinc, Gold & Silver Ores Processing	3.6

…the amount of working capital available to business has a direct impact on the level of sales that the business can achieve.

The conclusions that can be drawn from the above table are numerous. First, an increase in the amount of working capital available to a business has a direct impact on the level of sales that the business can achieve. Secondly, there are certain sectors of the economy that should be targeted so that the region, as a whole, receives maximum benefit for providing the sector with additional working capital.

From the information provided above, it is obvious that providing additional working capital to petroleum refiners and meat product processors would yield the maximum possible increase in economic activity.

Interestingly, petroleum refining and meat processing areas are sectors where the province of Saskatchewan has a natural advantage. With vast reserves of natural resources and large volumes of agricultural land available for hog and beef operations, Saskatchewan is positioned to see huge returns, in the form of economic activity, from providing these sectors with additional working capital.

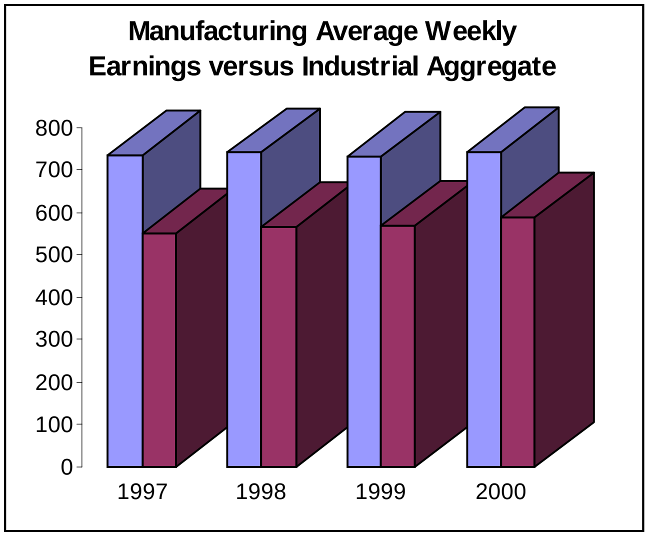
4.4 Manufacturing Wages

Manufacturing …has traditionally higher wages than the industrial aggregate.

To increase the job creation rate in any one sector is always a positive step for any economy, however, to increase the rate in a sector that has traditionally higher wages contributes even more to the economy.

The manufacturing sector does, in fact, have traditionally higher wages than the industrial aggregate, as shown by the graph below.

FIGURE 3



In 2000, the average weekly earnings in Saskatchewan in manufacturing were $742.01 while the industrial aggregate was $588.91[5]. By creating jobs in manufacturing, the average extra income that is earned was $153.10 in 2000. Clearly, an increase in manufacturing jobs has a more positive impact on the economy than does an increase in the number of service jobs, which had average weekly earnings in 2000 of $544.29.

Compared to the Canadian average weekly earnings for manufacturing employment, Saskatchewan lags behind. The Canadian average is $794.52, an amount of $52.51 over the Saskatchewan manufacturing average.

By stimulating employment growth in the manufacturing sector, the economy of Saskatchewan will experience increased consumer spending as those higher-paying jobs are created. With increased spending by consumers comes an increased desire from businesses to expand. As expansion occurs, investment in capital assets and labour are two likely destinations for the new funds that have been injected into the economy through the increase in manufacturing jobs.

[5] Statistics Canada, Annual Estimates of Employment, Earnings and Hours

4.5 Why Supply Working Capital Through Tax Cuts?

Income tax cuts provide direct stimulus to the economy.

Income tax cuts provide direct stimulus to the economy. Reduction of taxes is extremely cost effective as compared to other forms of providing additional working capital such as Government grants. Government grants are subject to the frictional loss caused by first collecting the tax revenue, followed by analyzing where the grants should go, followed by the distribution of the grants. Not only is there the frictional loss to consider with this process, but the time it takes to process the grants represents a significant danger to business. Even if the processing time is only a few weeks, that represents time that the business did not have to convert the additional working capital into additional sales.

A $1,000 grant from Government could be at a cost to taxpayers of $1,200 to $1,500 due to frictional loss.

Income tax cuts represent funds that are never taken from the business and, therefore, are available immediately to convert into sales volume. A $1,000 grant from Government could be at a cost to taxpayers of $1,200 to $1,500 due to the frictional loss previously discussed. If that same grant took one month to arrive to a petroleum refining business, that represents economic activity of $24,800 that is delayed by one month. Looking at the return on granting activity, the fully costed grant of $1,200 to $1,500 divided by the resulting economic impact of $24,800 results in a ratio of 16.53 to 20.67. If a $1,000 tax cut had been provided to that same business, there would be no frictional loss, and a ratio of 24.8. The conclusion: a grant of $1,000 as compared to a tax cut resulting in $1,000 less being paid by the business represents a loss of $4,130 with frictional loss of 20% to $8,265 in economic activity when frictional loss is 50%. This represents $4.13 to $8.27 per dollar of granted money.

This loss can be avoided by using tax cuts, a form of direct economic stimulus, instead of other methods of returning funds to business.

4.6 Impact of Additional Sales

Increased sales are the result of a number of aspects that are only available when there is adequate working capital to fund the expenditures.

Sales do not appear simply because additional working capital is available. Increased sales are the result of a number of aspects that are only available when there is adequate working capital to fund the expenditures. For example, if a company has additional working capital, it may hire additional people for its sales team and if sales increase as a result of more people trying to sell the product, production must increase. As production increases, more production workers are required to meet the levels provided by the sales team. By not taxing the business initially, there are more people employed who then do not consume employment insurance or welfare but rather pay personal income taxes and sales taxes.

Another option for working capital is to invest that money in property, plant, or equipment to increase productive activity. In the case of investment in the plant in the form of expansion, numerous construction jobs are created as well as the purchase of materials needed to complete the expansion. Economic activity occurs once again and creates additional opportunity for employment. For the business to invest in property, plant, or equipment, this would occur only if the internal rate of return for that investment is higher than investing in sales-oriented activities. Property, plant, and equipment investments would, therefore, imply an even higher long-term return on working capital.

4.7 Unemployment Masked By The Exodus

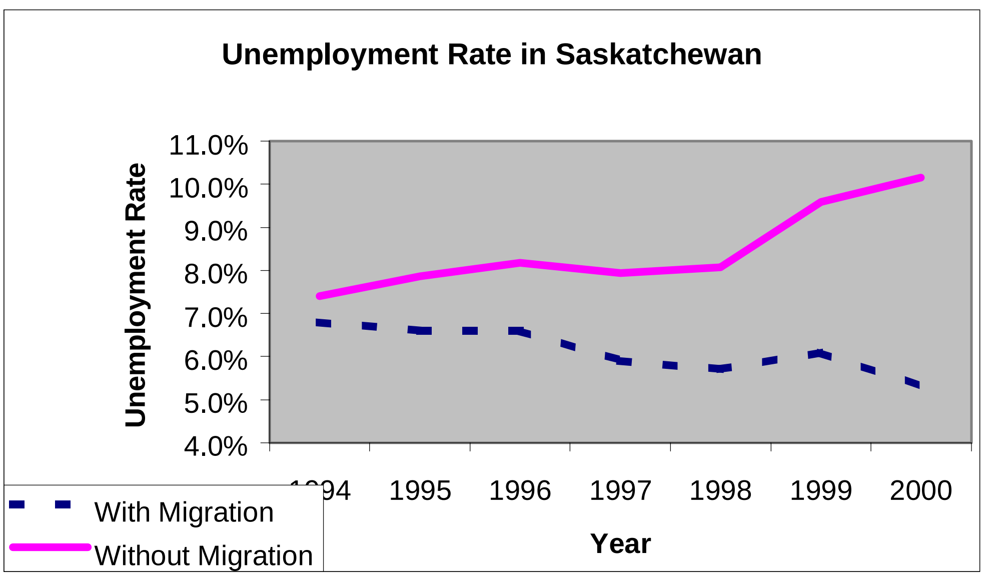
Additional sales mean additional economic activity, which means increased employment. With increased employment comes an improvement in the morale of the region.

Apparently Saskatchewan has never had an unemployment problem! We have been consistently below the national average! The unemployment figures that are produced at regular intervals are being masked by the steady out-migration of members of the labour force in Saskatchewan. The province of Saskatchewan has not experienced positive inter-provincial migration for many years. This out-migration of the labour force has caused unemployment numbers to remain relatively low. In addition, with an aging population, the province has more people retiring and, therefore, moving out of the labour force.

> If the several thousand people who leave Saskatchewan every year for other provinces had stayed… the unemployment level would look much different.

If the several thousand people who leave Saskatchewan every year for other provinces had stayed while the job creation record had remained the same, the unemployment level in Saskatchewan would look much different. Below is a chart outlining the change in the unemployment level from 1994 to 2000 if, during that period, there had been no inter-provincial migration. Appendix B contains the calculations used to arrive at this conclusion as well as the methodology applied.

FIGURE 4



4.8 Corporate Income Taxes: An Unstable Source of Revenue

Due to many provisions in the Income Tax Act as well as other taxation legislation, the reliability of corporate income taxes as a form of revenue to the government is very low.

Loss carryback and carryforward provisions cause corporate income taxes to be tremendously unstable sources of revenue.

Loss carryback and carryforward provisions cause corporate income taxes to be tremendously unstable sources of revenue. To illustrate, consider the following example.

A company in Saskatchewan starts operations in 1995. In that year, it has taxable income of $100,000 on which it pays 17% tax. This represents $17,000 to the provincial government. In 1996, it also has taxable income of $100,000. In 1997, it earns taxable income of $200,000. Up to this point, the company has paid $68,000 in income taxes to the provincial government. These funds have already been spent on programs and services by the government. In 1998, the company experiences a loss of $1,100,000. Carryback provisions indicate that the company will receive a refund of $68,000. Not only that, but the company will not pay tax on the next $700,000 of income because of carryforward provisions.

There is a potential liability of $571,600,000 in corporate income tax refunds.

In this situation, the provincial government would only refund $68,000. However, consider the implications of a change in economic conditions. For 2002-03, it is estimated that corporate income tax will generate $118,500,000[6]. In theory, all of this revenue could be required to refund to corporations in 2003-04. Not only that, but the corporate income tax collected in 2001-02, and 2000-01 may also be required to be refunded in 2003-04. This would represent an approximate total of $571,600,000 in corporate income tax refunds. In order to require this level of refunds, a rough estimate of the loss would be $3.36 billion to corporations in Saskatchewan. This amount is not impossible. Consider the fact that Nortel Networks recorded a loss of US$841 million[7] in the first quarter of 2002. This represents a loss of approximately CDN$1.3 billion[8] in just three months. The loss in this quarter was partially offset by $500 million in tax recoveries. Fortunate for the citizens of Saskatchewan that Nortel was not based here!

While this may be extreme, consider that the amount of corporate income taxes in 2001-02 was nearly 50% less than the estimated in the 2001 -02 budget and that the economic downturn was nowhere near as dramatic as initially estimated by many economists. It was estimated, in the 2001-02 budget, that corporate income taxes would represent 4.52% of total government revenues. In reality, it made up only 2.29% of total government revenues. This too shows the unreliability and instability of corporate income taxes as a source of revenue.

[6] "Meeting the Challenge for Saskatchewan People" 2002-03 Saskatchewan Provincial Budget
[7] Nortel Networks Press Release, Thursday April 18, 2002.
[8] Conversion figure used was CDN$1.53 = US$1.00

The reliance on corporate income taxes is not only a provincial danger, it is also a danger to the federal government. However, the level of reliance is not as dramatic. In addition, the federal government has additional tools available to handle significant economic shifts. A dependence on corporate income taxes to balance the provincial budget is very dangerous and represents severe fiscal risk that could result in the inability of the government to fund key programs including health and education.

By decreasing the dependence on this revenue stream, the government, in fact, becomes more able to deal with issues relating to debt management, disaster relief, agriculture crises, and other important issues that can arise unexpectedly.

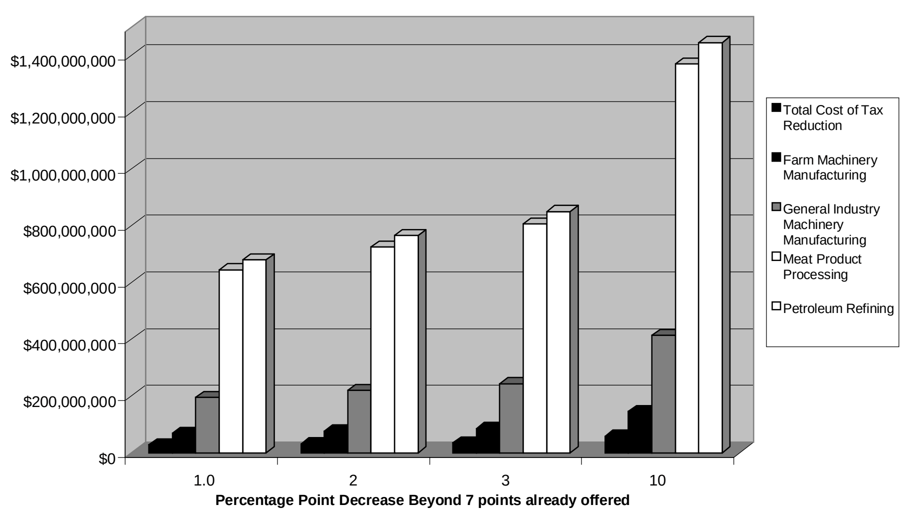
4.9 The Cost of a Tax Cut in Saskatchewan

The cost of a one-point reduction in manufacturing and processing tax is only $3.43 million.

With the current system of "Manufacturing and Processing Profits Tax Reduction," the government of Saskatchewan foregoes approximately $24 million annually. This $24 million savings to business is as a result of a 7-percentage point decrease in the tax rate (from 17% to 10%). Using these figures provided by the department of Finance of the Government of Saskatchewan, we calculate a cost of approximately $3.43 million per percentage point of manufacturing and processing income tax cut.

With the delayed revenues as a result of each percentage point in tax reduction being estimated at $3.43 million, we can calculate the cost of a reduction in manufacturing and processing tax. With ten additional percentage points available to be reduced, there is a cost of $34.3 million to reduce the tax rate on manufacturing and processing firms to zero. Appendix A shows the impact for various levels of tax cuts with different manufacturing and processing sectors. The level of additional net sales generated by the additional working capital available to business ranges from $146 million for Farm Machinery Manufacturing to $1.45 billion for Petroleum Refining. No one specific industry can be used, however, the overall impact from additional working capital being made available is staggering.

FIGURE 5 **Estimated Net Sales Potentially Generated Through Tax Cuts**



These figures are based on a Net Sales to Working Capital ratio taken from the "Almanac of Business and Industrial Financial Ratios 2001 Edition" by Leo Troy, PhD. There are many sources for this information beyond the work of Leo Troy including Dunn and Bradstreet, however, the figures derived are fairly consistent across studies. These ratios are based on information compiled from the IRS on companies that operate in the United States. While these are U.S. ratios, there are some correlation that can be made between the American and Canadian economic situations. Figure 5 is a graph comparing the cost of cuts to the estimated net sales that would be generated as a result of the cuts for various industries and levels of cuts.

As illustrated by Figure 5, the benefit of decreasing taxes that manufacturing and processing firms must pay, is enormous. It shows that petroleum refining and meat processing, two industries where Saskatchewan has a significant competitive advantage due to oil reserves and agricultural land, are the two industries that produce the most benefit from the tax cut of those industries examined.

The city of Saskatoon can attest to the importance of the meat processing sector to the economy. One of the largest employers operating in Saskatoon is Mitchell's Gourmet Foods, a meat processing firm that has recently expanded to employ approximately 1,350 people in Saskatoon and generate sales of $2 87,000,000 in 2001. Consider what would happen if Mitchell's doubled in size. What about a tripling? Or quadrupling? Saskatchewan could soon become the national leader in meat processing, providing opportunities to Saskatchewan farmers to sell their product locally, thereby reducing transportation costs and other costs associated with the sale of livestock.

4.10 Delayed But Not Foregone: The Reality of Tax Cuts

By cutting taxes, revenues are merely delayed, not foregone.

By cutting taxes, the revenues that are considered 'foregone' are, in fact, only delayed.

A corporation has very few choices as to what to do with additional funds provided to them. The company can invest in assets, at which time they will be paying sales taxes as well as increasing sales for another company or individual. The company could choose to hire more staff, who will then be paying personal income taxes, sales taxes, and other consumption taxes. The next choice is to distribute the funds to shareholders through dividends, which are then taxed through personal taxes. The company could retire debt, thereby increasing stability and increasing profits. Another alternative is to do nothing with the additional funds. However, a corporation must eventually distribute the funds in one way or another.

Ideally, from an economic development perspective, a company will reinvest funds in capital assets that will increase its ability to deliver products and services to consumers. With this increase will come a need for additional personnel, which will cause an increase in the amount of pers onal income tax revenue collected.

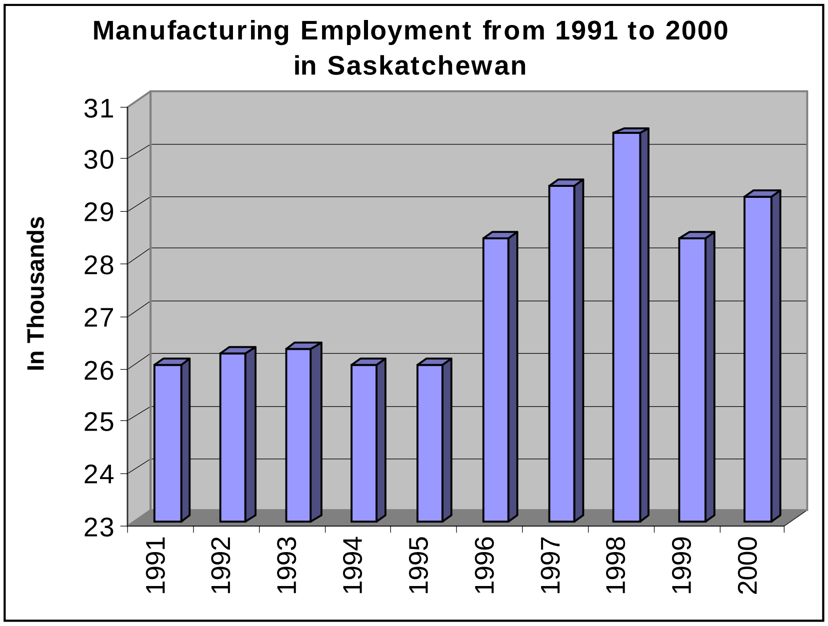
The key point to remember is that these revenues are not foregone if the tax mix of a jurisdiction is competitive, but merely delayed. The delay may be numerous years or no time at all, depending on the economic environ ment in which a company operates.

4.11 A Proven Example in Manufacturing

Saskatchewan experienced success in stimulating growth in manufacturing

The Province of Saskatchewan has experienced success in stimulating growth in the manufacturing sector. In 1995, there were roughly 26,000 people employed in manufacturing in Saskatchewan. Also in 1995, the "Manufacturing and Processing Profits Tax Reduction" was started. The impact on employment in manufacturing was dramatic. Below is a chart showing employment in manufacturing employment in Saskatchewan. The significant portion of the chart is the change in manufacturing employment from 1995 to 1996. If the impact of the tax reduction program generated that much growth, consider the implications of a further reduction in the rate that applies to manufacturing and processi ng firms.

FIGURE 6



5.0 Recommendations

A decrease in the tax rate applied to manufacturing and processing firms presents a significant opportunity to the province of Saskatchewan to stimulate its economy while creating jobs for the youth of the province.

As manufacturing jobs typically pay higher than the national average, this sector is a good area to target for employment growth. In addition to the higher wages typically paid in manufacturing than the industrial aggregate, the cost of reducing the tax rate that applies to manufacturing and processing firms is minimal.

5.1 It should be the priority of the Government of Saskatchewan to seek opportunities to gain competitive advantage and stimulate growth in the non-government sectors of the economy of Saskatchewan.

5.2 Further decrease the tax rate that applies to manufacturing and processing firms in order to stimulate employment growth in this above -average pay sector of the economy.

5.3 Attempt to reduce the tax rate that applies to manufacturing and processing firms to zero, as soon as possible, in order to maximize the incentive firms will receive by relocating or expanding to Saskatchewan, thereby stimulating employment growth and investment in this province.

5.4 The Government of Saskatchewan should create a five-year, tax-free policy for new manufacturing and processing firms in order to attract investment and should continue the tax-free policy indefinitely after the initial five years on the first $400,000 of income earned in Saskatchewan.

5.5 $34 million in targeted income tax cuts for manufacturing and processing is an affordable competitive advantage positioning tool for Saskatchewan

6.0 WORKS CONSULTED

Nortel Networks, *Press Release*, Thursday April 18, 2002.

Statistics Canada, *Annual Estimates of Employment Earnings and Hours*, 2001.

Statistics Canada, *Historical Labour Force Statistics*, 2001.

Statistics Canada, *Labour Force Historical Review*, 2001.

Saskatchewan Bureau of Statistics, *Economic Review 2001*, 2001.

Saskatchewan Bureau of Statistics, *Monthly Statistical Review*, March 2001.

Troy, Leo. *Almanac of Business and Industrial Financial Ratios 2001 Edition*, 2001.

U.S. Bureau of Labor Statistics, *Employment Situation Summary*, February 2002.

Various, Members of Saskatoon and District Chamber of Commerce Committees, Email correspondence.