A Submission
to the
Business Tax Review Committee
by the
Saskatchewan Federation
of Labour

June 27, 2005

The SFL as Stakeholder

The Saskatchewan Federation of Labour would like to express its appreciation to the Business Tax Review Committee for providing us this opportunity to present our position on the important issues that comprise your mandate.

The Saskatchewan Federation of Labour (SFL) represents more than 90,000 unionized workers across the province who are members of some three dozen national and international unions. All local unions that are members of the Federation affiliate voluntarily. They enroll in the Federation of Labour by democratic decision making on the part of their rank and file members. The Federation of Labour retains the vast majority of unionized wage earners as members because we reflect their opinions and attitudes and provide leadership that they endorse.

In addition to that, for most of the past century the Federation, and its predecessor provincial central labour organizations, have assumed the responsibility of speaking for and representing all wage earners in Saskatchewan – including unorganized workers.

The SFL is therefore very familiar with the employees, workplaces, employers and the economy of Saskatchewan. We are as aware of the commercial operations of this province as any organization you can name.

The Issues

It appears to us, from examining budget speeches, mid-year Department of Finance fiscal reports, the public accounts and related documents, that just slightly more than one dollar in every five which flows into the provincial treasury comes from business. Approximately 1.5 billion dollars or just over 20 per cent of the revenue side of the provincial budget is accounted for by business taxes.

That is not an excessive amount in our view, in terms of total dollars, or in percentage terms, or when compared to what other groups pay. Clearly business owners are not being gouged without mercy by our present taxation regime. The tax take from business is dwarfed by the revenue from personal income tax, sales tax and fuel tax.

To put it another way 4/5ths of the revenue taken in by the provincial government comes from sources and people other than business. That is 80 per cent. One would think, to listen to business groups, that they are paying 80 per cent of the taxes. They are not. They are paying one quarter of what others pay.

Business is obliged to pay the PST or sales tax, and it is not an insignificant amount, totaling more than 575 million dollars annually. That is in the same range as the PST paid by individuals.

But it is also one of the easiest taxes for business owners to pass on to customers, consumers and clients, and that is exactly what the business owners and mangers do.

There has been some concern expressed about the sales tax applying to inputs and thus increasing the cost of doing business. We would simply respond by pointing out that many of the taxes paid by working people increase their cost of living, but they still have to be paid.

There are also exemptions from the PST for certain businesses. For example, the Manufacturing and Processing Investment Tax Credit rebates the 7 per cent PST on equipment or buildings to be used to manufacture or process products. We are told it amounts to 17.5 million dollars a year. This tax is not refundable, meaning if the enterprise is not profitable there is no rebate, nor should there be. The tax system should not be propping up operations that may well be bound for bankruptcy. And the tax system should not provide any more encouragement than is already there for company owners to "cook the books" in order to hide earnings and profitability.

The corporate income tax for small businesses is set at 5 per cent on annual taxable income, and the threshold for identifying a small business in Saskatchewan is $300,000. This is not an excessive level of taxation. Manitoba also has a 5 per cent rate and a cutoff of $400,000 in taxable income for the reduced tax rate to apply. Alberta has a 3 per cent rate and they too have an eligibility threshold of $400,000. If the Business Tax

Review Committee recommends a change to the small business income tax it should not be in the direction of any sort of reduction. That simply isn't warranted.

The corporate income tax on larger businesses is 17 per cent of taxable income. This is at the high end of the rates charged in other jurisdictions, but again there are ways to reduce the tax. For example Canadian controlled private corporations can have the first $300,000 of their taxable income assessed at the lower 5 per cent tax rate.

Some critics of the present business tax structure have said that the increment between 5 and 17 per cent is too large - that the step from one rate to the other is too big and that it should be reduced. If the Review Committee has this in mind as a recommendation, we would simply urge a revenue neutral adjustment. If you recommend an intervening step or a narrowing of the separation of the two rates, there should be no loss of tax dollars to the provincial treasury.

There is a corporate capital tax in this province, but because of how it is structured most companies don't pay it. In fact the vast majority don't pay it. This is not just a suspicion on our part, we have had it confirmed by Department of Finance officials.

The corporate capital tax permits a 10 million dollar exemption, which can increase to be worth up to $20 million if the company is wholly or substantially a Saskatchewan business.

After that rather sizable exemption, the tax rate is only .6 per cent on the paid up capital of the company. This tax, we are told, generates approximately 175 million dollars, and this includes a capital tax on financial institutions at a higher rate of 3.25 per cent. There is also a surtax on resource companies which brings in just under 200 million dollars. Of the changes that are possible here, it is hard to imagine a rate much lower than six tenths of one per cent or exemptions any higher than those in place at present.

These taxes are in place to cope with the very real problem of corporations – particularly resource companies - shifting their income and profits to a low tax jurisdiction such as Alberta. We understand the urge that corporate executives experience, to have as much corporate profit as possible transferred to some tax free or low tax zone. But unlike some shills and apologists for oil companies we don't believe they should be allowed to get away with it.

The Finance Department tells us that Alberta has no capital tax, that B.C. charges it on financial institutions only, and that Manitoba applies such a tax and has a 5 million dollar exemption.

What other provinces do is up to them. We, in Saskatchewan, have some unique circumstances, such as our close proximity to Alberta and the mobility of profits there, and we simply can't afford to avert our gaze from that reality and choose to see only the argument that there is mobility of capital. The old line that capital is mobile is an increasingly tired mantra as is the old song of competitiveness.

Our province didn't get where it is today by behaving like a newborn gosling and constantly following others. We have often followed our own path, and during those times managed to achieve some of our finest accomplishments.

The corporate capital tax and surtax provide the provincial treasury with more than 370 million annually. Any recommendation the committee may make to government on these taxes should not reduce the total revenues generated. Because as we will take a moment and point out now, taxes do some very good things for our society.

Taxation and its Benefits

Safe streets, well equipped hospitals and adequately staffed schools come with a price tag attached.

Maintaining our parks, training nurses, clarifying drinking water, filling potholes and trucking away garbage are not services that get done without a cost being incurred.

Firefighters, health inspectors, teachers' aids, day care workers and ambulance attendants don't donate their services, nor should they be expected to.

New buildings on our university campuses are not constructed with volunteer labour. Training apprentices in the electrical trade is not accomplished overnight for free. Enforcing our environmental laws and Occupational Health and Safety regulations costs money.

And every one of these items is dependant on tax dollars.

Our brief referred to the PST earlier. That's a levy we used to call the E&H tax, because it paid for things such as teacher salaries and kept class sizes down and funded major surgeries and the air ambulance and bought X-ray machines.

We believe it is best to retain a reasonable prospective on our taxation system and the good things it pays for. It has generated the financial wherewithal to build a provincial highway system, implement pre-paid hospitalization insurance and Medicare and give us a quality of life which is the envy of the rest of the world. We shouldn't even be thinking of in any way putting that in jeopardy, simply because of the high-pitched whining of some business lobby groups, whose members have in many cases never had it so good.

The Business Climate

The Saskatchewan economy "boomed" in 2004 according to a report issued by Statistics Canada in April this year. Real growth in GDP was 3.5

per cent, the third highest among the provinces and well above the national figure of 2.8 per cent.

Oil revenue set a record last year in this province. Natural gas revenues were the second highest ever. Drilling of new wells accounted for the fourth best year ever. An estimated 2 billion dollars of hydrocarbon exploration and development was done.

The forestry sector in Saskatchewan increased production by 11 per cent last year over 2003. The value of manufactured wood products shipped from the province increased by fully 48 per cent in the same period.

In manufacturing generally we led all of Canada with a 22 per cent increase in the value of manufactured good shipped. That is more than double the national rate of growth of 8.5 per cent. The Stats Can document goes on to say this, “Overall, Saskatchewan’s manufacturers had their strongest performance in a decade”.

Mineral sales amounted to $3 billion in 2004, a 25 per cent jump over the previous year. Almost a third of the world’s production of potash and uranium takes place here.

This province’s exports of goods totaled $12.2 billion last year, an increase of more than 18 per cent over 2003.

Statistics Canada projects that Saskatchewan will lead every other province with a 12.6 per cent growth in investment during 2005, more than twice the average for Canada as a whole. And they forecast that Saskatchewan's exports will grow at double the national average this year.

Our provincial GDP growth is forecast to be above the Canadian figure for the third straight year.

Others agree with the Stats Can analysis.

The Globe and Mail, in a special in-depth, multi-page assessment of economic developments and trends in this province, published just recently on June 14, said "Saskatchewan performed well in all key economic sectors".

The Conference Board of Canada, in its Winter 2005 Forecast said, "Saskatchewan should continue to expand at a remarkable rate". The Conference Board has ranked Saskatoon and Regina and excellent places to invest.

Regina's Research Park and Saskatoon's Innovation Place recently surveyed the companies which with they are involved and found "a tremendous amount of optimism among CEOs". 45 per cent of these top Saskatchewan corporate leaders said they planned to expand within a year.

The Canadian Imperial Bank of Commerce recently ranked Saskatoon as the second best market and economic environment out of twenty-five cities in Canada. The bank economists looked at nine measures including employment and unemployment, population growth, business and personal bankruptcies and certain costs in the local area. Saskatoon ranked ahead of twenty-three other cities, such as Toronto, Calgary, Edmonton and Vancouver.

Journalist Pat Rediger writing in the Leader Post on June 23, 2005, had this to say about the extended period of business prosperity in the province's capital city, "Drive through Regina and there is no doubt that businesses in the city have been expanding at a rapid rate in recent years. Approximately 1 million square feet of new retail space has been developed in east Regina since 1999 according to Colliers International 2004 – 2005 Canadian Real Estate Review. Another 250,000 square feet have been added to northwest Regina."

Rediger goes on to say that Regina "offers the lowest average price per acre for land over any other metropolitan city in Canada. An average acre of land costs approximately $50,000 in Regina, whereas in Vancouver the cost is approximately $590,000 and in Toronto approximately $190,000."

And the article goes on to say, "Construction costs for operations are also lower in Regina. For example, by building either a 50,000 square foot warehouse or an office complex in Regina, a business will save between $104,000 to $476,000. As well, between $115,000 and $527,000 can be saved if the business invests in the construction of a similar-sized factory."

In employment terms, our provincial economy is firing on all cylinders. In May of this year 494,200 people were working; that is the best May employment figure ever; surpassing the record set a year ago by more than 8,000 jobs.

The May job numbers bring to fourteen the number of consecutive months for record job numbers in Saskatchewan.

Full-time jobs in the province increased by 4,500 over the previous spring. Youth employment was up 2,100 in May above the figures of a year earlier.

This spring the province had more people employed by construction contractors, in retail trade, in manufacturing plants both large and small, in transportation and in all branches of public administration.

Saskatchewan had the second lowest jobless rate in Canada in May, at 4.4 per cent, down half a percentage point from a year earlier. The national unemployment rate was 7 per cent.

Saskatoon had the third lowest unemployment rate among Canadian cities, and Regina had the fourth lowest rate.

Small and Large Businesses are Booming

Business writer Paul Martin reports that the most recent figures for retail sales are up by 7 per cent over the previous year. This is generally regarded as a good indication that small business is doing well. Industry and Resources Minister Eric Cline, in a June 10 news release, notes the very positive indicators for retail sales and that economic forecasts are bullish well into the future.

The Business Tax Review Committee has been around the province in recent weeks and will have no doubt noticed that commercial property is to a very large extent occupied in the business districts of our cities and towns. Small business is doing well, and there is no sign of that changing. And it is not just the larger centers that are thriving. The mayor of Humboldt recently announced that his community has grown by five per cent in five years, much of it the result of small business development.

Pretty clearly there is no pressing need for a tax cut in order to revive a depressed small business climate. Small businesses in Saskatchewan are in great shape financially.

Our larger corporations are in good shape as well.

The Potash Corporation of Saskatchewan just announced a record first quarter net income, and set records for production and export volumes including offshore shipments. 131.3 million dollars (US) profit was chalked up by PCS, 31 per cent higher than the previous quarterly record set in the immediate preceding three months.

Regina steel maker IPSCO continued its record breaking pace in the first quarter of 2005, posting a 154 million (US) dollar profit on sales of $746 million, smashing records set last year. IPSCO's first quarter sales of pipe and flat steel were up 54 per cent over the pervious year. The steel mill set records for its financial results throughout 2004 as well.

Other larger Saskatchewan business are performing equally well. Obviously they do not require a tax cut to remain viable. They are booming, and immensely profitable.

Costly Corporate Tax Cuts

The phenomenally healthy business climate in recent years has not stopped employer associations from asking for more and costlier tax breaks. Nor has it deterred successive governments from catering to every whim of the commercial class for lower taxes.

For almost a quarter century now – through the Devine, Romanow and Calvert administrations – there has been a preoccupation by our elected politicians with pandering to the constant calls by business lobby groups to rid employers of the nuisance of having to pay taxes.

Royalty rates and mineral taxes have tumbled to a fraction of their levels under the Blakeney government. In a new study done for the Canadian Centre for Policy Alternatives by retired University of Regina professor John Warnock the natural resource revenue issue is extensively studied.

Warnock points out that the Blakeney administration collected royalties and taxes on our resources equal to roughly 50 per cent of their value. The subsequent tax cuts have reduced the take to 15 per cent today. This has given us some of the lowest royalty rates in the world at a time when the international price for these commodities are sky high, and so are profits of the companies that deal in the products and supply and service the resource extraction industry.

We are aware that resource royalties are not within the committee's jurisdiction, but the trend in that industry is typical of what has gone on in other sectors of the economy.

An almost endless list of tax reductions and eliminations has been served up for businesses in one provincial budget after another in the last 23 years.

Looking through the last several provincial budget speeches one is struck by the dizzying array of concessions made to business.

In 1995 companies doing manufacturing and processing got a reduction in the tax on profits by 7 per cent, and a generous Investment Tax Credit for the acquisition of capital assets, and certain sales tax exemptions.

July 1, 2001 the small business corporate income tax rate was cut from 8 per cent to 6. Six months later the amount of taxable income to which the small business rate can be applied went up from $200,000 the $300,000.

At that same time enhanced oil recovery projects were given a special low rate of royalties and taxes and an exemption from sales tax. In April 2001 a similar deal was given to the sodium sulfate industry.

On January 1, 2002 the corporate capital tax exemption was raised from $10 million to $15 million for Saskatchewan enterprises. At the time it was the highest deduction in Canada and exempted many profitable companies from paying any CCT at all. Also the capital gains tax rate on small business shares was reduced to the lowest provincial income tax rate.

The same budget extended the Petroleum Research Incentive which amounts to a credit against royalties.

The 2003 budget extended the Mineral Exploration Tax Credit, and boosted the corporate capital tax for Saskatchewan-based companies to $20 million.

At the beginning of 2004 the small business corporate income tax was reduced again to 5.5 per cent and a year later to 5. That is exactly half the original CIT rate of 10 per cent tax on small business, which was in place in 1991. In less than a decade and a half that business income tax rate has been cut in half. And still the business crowd demands more.

In April 2005 a whole series of tax breaks for oil companies came into force. Potash companies have been handed similar breaks.

The present administration even went so far as to intrude into the local government field when it introduced and passed a statutory amendment making it impossible for municipal governments to implement a business tax even if the local authorities and ratepayers want such a fee.

We want to point out too that the Saskatchewan taxation regime does not levy either a payroll tax or health premiums, which are a cost to employers in other places. Premiums are often paid by employers particularly in unionized workplaces where collective agreement language requires it.

Saskatchewan has among the lowest utility rates on the continent, and those low power, gas, telephone and vehicle insurance rates apply to companies as well as individuals.

Saskatchewan has a highly trained, well educated workforce that consistently comes out at or near the head of the pack in terms of productivity. Our output per work is the envy of other jurisdictions.

Federal Business Taxes

The national government has also been slashing taxes on business in recent years, and plans to do some more.

In the last five years the federal corporate tax rate has been reduced from 28 per cent to 21. The most recent budget proposed a further cut to 19 per cent by 2010, and the elimination of both the corporate surtax and corporate capital tax by 2008. Once all this largess aimed at business is implemented it will save Canadian employers, including those in Saskatchewan, an estimated $12.6 billion annually.

Proponents of this sort of tax policy will be heard to argue that the need for competitiveness drives the changes. But does it?

KPMG – an organization which will not be unknown to the committee - has examined and reported on more than two dozen locations in North America, Europe and the Pacific rim, from the prospective of their relative competitiveness, and Canadian centres come off very well. The most recent report found that for 2004 effective corporate income tax rates in Canada are lower than in the U.S.

The KPMG study determined that business taxes account for between just 3 to 11 per cent of location-specific business costs. And the study also found that Canada had the lowest business costs of any of the eleven countries surveyed. Yet our national government wants to further cut business taxes! Why? Well, we believe it is a response to the relentless chorus from the entrepreneurial zealots and their shills for lower business taxes – a process not unknown to Saskatchewan.

What else could it be? The federal budget notes that combined federal and provincial corporate taxes are lower in Canada than average rates in the U.S. and still the tax cutting proponents across this country find an attentive audience, including here in Saskatchewan.

Investment Decisions and Taxes

Some business spokespersons may have told this committee that the lowest corporate taxes will virtually guarantee an increased investment flow into the province. We should examine that logic.

We would refer the committee to a thoughtful document entitled *The Dubious Case for More Corporate Tax Cuts* researched and written by Canadian Labour Congress economist Andrew Jackson. The paper makes a persuasive argument that business investment is much more dependent on consumer demand and the cost of capital than it is on taxes. Interest rates and a market for your products determine more investment decisions than do tax rates. And corporate tax cuts may well just provide windfalls to companies for investments that would have taken place anyway.

Investments in the service sector, and retail trade and financial services are clearly not determined by corporate taxation rules. In order to service a market you have to be located in that market. No amount of corporate tax slashing is going to attract potash mines to northern Ontario or automobile assembly plants to Baffin Island, or a pulp mill to Estevan.

The CLC paper by Jackson clearly demonstrates that the deep cuts in federal corporate income taxes have to date not resulted in any significant increase in investment. It appears that the cuts have assisted in causing profits to soar but new investment has languished.

Profits for corporations are at an all time high, but investment in buildings, machinery and equipment has stagnated, even dipping slightly as a share of GDP, according to the Jackson paper.

Capital investment per worker in manufacturing in Canada is one-third lower than in the U.S., and investment in research and development is half the American rate.

Tax cuts by themselves don't appear to be a very effective tool in achieving new investment.

Corporate tax cuts have certainly pushed up CEO and managerial salaries along with dividends to stockholders, and Stats Canada has reported that corporations are accumulating large cash surpluses.

Other business enterprises have moved profits offshore. In 2004 Stats Can tabulated a net outflow of $50 billion as Canadian companies move money to foreign financial centers, including tax havens.

Conclusions and Recommendations

The business climate in Saskatchewan is so good you would think the Chamber of Commerce would be leading its members in Wal-Mart style cheers on a daily basis.

As Doug Elliott, of Sask Trends Monitor, said last week referring to the provincial economy, "This is as good as it's going to get".

The Saskatchewan economy is delivering huge amounts of revenue, income and profit to local businesses.

Company owners and corporation shareholders have never had it so good.

We are moved to ask – Where is the problem the Business Tax Review Committee was dispatched to fix?

The overall costs of doing business in this province – including taxes - are among the lowest in North America.

We have seen impressive new investments made in Saskatchewan with the taxation structures we have at present.

There are tremendous advantages to locating a business in this province, many of them – including infrastructure, facilities and an educated, productive workforce - are paid for by our tax system.

Governments have delivered dozens of tax reductions in the last two decades that have benefited businesses to the tune of billions of dollars. How much more does the business crowd want? Would zero tax rates be acceptable to the likes of the CFIB? Would the Chamber of Commerce be satisfied if wage earners paid for all the public services in society? Or would they at that point demand further subsidies and tax expenditures simply for opening their doors each day?

Clearly the facts and good sense argue for no further reduction in business taxes in Saskatchewan. The present arrangement is not burdening the corporate and commercial class unduly. We request of them no more than we do of wage earners, farmers and seniors – to pay a reasonable amount of tax towards the upkeep of the structures of our society.

That is not too much to ask.