

SUBJECT: Implementation of Tax Plan Recommendations

SUBMITTED BY: Finance Committee

BACKGROUND

In 2010 the Saskatchewan Chamber of Commerce, the Institute of Chartered Accountants of Saskatchewan, the Certified Management Accountants of Saskatchewan, the Certified General Accountants of Saskatchewan, and the Association of Saskatchewan REALTORS® contracted the Canada West Foundation to undertake writing a comprehensive tax report to evaluate the competitiveness of Saskatchewan's taxation system. The result, "A Tax Framework for Saskatchewan's Continuing Prosperity," was the most comprehensive external review of Saskatchewan's tax system undertaken since 1965.

After extensive research, the original recommendations accepted by the funding partners to improve Saskatchewan's tax environment were:

#1: Reducing Education Property Tax (Residential and Non-residential)

Fulfilling a commitment previously made by government, the Framework recommended transferring a portion of education funding away from the property tax to other provincial tax sources. The Framework called for this to be implemented in 2011-12 and projected it would reduce revenue by \$55 million.

#2: Restructuring and Simplifying Education Property Tax (Non-residential)

The Framework recommendations capping the differential in the effective rate of education property tax for non-residential properties at 1.43 of residential properties. This would equalize the effective rate of tax on residential and non-residential properties as businesses can deduct property taxes. Additionally, the Framework recommended simplifying the system by eliminating the three-tiered rate structure for non-residential properties. The Framework recommended phasing in this recommendation from 2011 to 2014 and estimated it would reduce provincial revenue by \$135 million.

#3: Simplifying Municipal and Education Property Tax (Residential and Non-residential)

This recommendation would reduce the assessment cycle used to calculate property value from 4 years to 2 years. To further simplify administration, under this reform tax tools, such as the inclusion rates, mill rates, mill rate factors, tiered mill rates, base tax, and minimum tax, would be eliminated. An effective rate of tax would then be calculated for each classification of property. The Framework estimates that instituting this reform would result in a expenditure of \$1 million.

#4: Personal Income Tax

The Framework advocates for the province to reform personal income tax by moving from the current three rate structure of 11%, 13%, and 15% to a dual rate structure of 9% and 12%. This change to the personal income tax system would

be phased in through a five step- five year process. Over the course of its implementation, this proposal would cost \$525 million in reduced revenue.

#5: Municipal Property Tax (Non-residential properties in Regina and Saskatoon)

The Framework recommends capping differentials in the effective rate of tax for non-residential properties at 1.43 of residential properties in the cities of Regina and Saskatoon. This reform should be implemented over a long time period (starting immediately) so that incremental growth can cover the cost of the shift without unduly impacting municipal revenues or residential property taxpayers.

#6: Financial Corporate Capital Tax




This reform recommends eliminating the corporate capital tax on financial institutions. Currently, the financial corporate capital tax is applied inequitably to the financial sector. The corporate capital tax is charged to large financial institutions, such as banks but not smaller ones, like credit union.






#7: Taxation of Business Investment - Corporate Income Tax

This reform recommended reducing the corporate income tax rate to 9% and small business rate to 3% to in order to improve the competitiveness of Saskatchewan businesses. Reducing the general corporate income tax rate to 9% would provide the businesses of Saskatchewan with a similar “net tax” relief offered to businesses in provinces that have embraced an HST, without shifting an additional consumption tax onto residents. The full implementation of the original recommendation was projected to occur in 2017/18 and would have reduced provincial revenue by \$232 million.

ISSUE

Since the introduction of the recommendations in “A Tax Framework for Saskatchewan’s Continuing Prosperity,” progress has been made. However, numerous recommendations are still outstanding.

	Progress	Additional Information
Education Property Tax Reduction		This recommendation has been fully implemented
Education Property Tax Reform	 	The Government of Saskatchewan has not changed the education portion of property tax rates. The three tiers for commercial properties that were used when calculating the education portion of property tax have been eliminated.

Municipal and Education Property Tax Simplification		<p>In September 2013 the Government of Saskatchewan concluded its consultations on the Review of Municipal Property Tax Tools. The results from this review are not yet available.</p>
Personal Income Tax Reform		<p>No progress has been made on this recommendation.</p>
Municipal Property Tax Reform		<p>In October 2013 the Saskatoon City Council voted not to reduce the municipal business property tax ratio from 1.75 to 1.43 over the next 11 years, as was being considered. The council has indicated it will be deferred the shift to the next reassessment period, coming in 2017. Regina has not yet publically evaluated this recommendation.</p>
Corporate Income Tax Reform		<p>The province has lowered the small business tax from 4.5% to 2%. This change reduced provincial revenue by an estimated \$80 million per year. Further, in October 2012 the government committed to lowering the corporate income tax rate from 12% to 10% over three years. This reduction was delayed in the 2013/14 budget but the Saskatchewan Chamber will continue to push for its implementation.</p>
Financial Corporate Capital Tax		<p>This would be the last reform implemented in the framework's timetable, and is scheduled for 2019/20. Due to the implementation timeline, very little discussions or activities regarding this reform have occurred to date.</p>

RECOMMENDED

- 1) That the Government of Saskatchewan implement the outstanding recommendations, which have been supported by the funding partners, from "A Tax Framework for Saskatchewan's Continuing Prosperity," as quickly as economic conditions allow.

- 2) That the Saskatchewan Chamber of Commerce and project funding partners continue to advocate for the Government of Saskatchewan to implement the Framework's recommendations.