Low Alberta Business Taxes:
Part of Alberta's Pro-Growth Strategy

April 2015

Alberta Enterprise Group

About AEG

The Alberta Enterprise Group (AEG) is the only group of its kind that puts direct action for Alberta business at its core. Being part of AEG means being part of a community of Alberta business leaders who believe in driving change and building a brighter, more prosperous future for all Albertans. By sharing information, advocating for Alberta business, and building bridges to new markets, AEG provides a voice to members on important issues facing business today.

Alberta Enterprise Group is a non-profit, member based organization whose members employ more than 150,000 Canadians across all sectors of the economy.

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Cover image: Discussing chart, © Pressman, DepositPhotos

“Most countries after the fall 2008 recession avoided raising corporate taxes precisely to encourage growth: Corporate tax rates on average have fallen to 24.4 per cent among 95 countries in 2014. There is a reason behind this. Study after study has shown that corporate taxes impose the highest economic cost. For each dollar of corporate tax, the loss to the Alberta economy is $82. Not a good tradeoff.”[1]

—Professor and economist, Dr. Jack Mintz, April 15, 2015

[1] Mintz, Jack, 2015. “Alberta should shun B.C.-style corporate tax hikes.” *National Post*, April 15, 2015. <http://business.financialpost.com/fp-comment/jack-m-mintz-alberta-should-shun-b-c-style-corporate-tax-hikes> accessed April 19, 2015.

Executive Summary

Since the mid-1990s, Alberta's policymakers have generally been cognizant of the need to allow for moderate tax levels on the personal and business side and market-sensitive royalty rates. Thus, in Alberta in part due to federal policy and provincial policies that reduced personal and business taxes, such decisions along with others helped Alberta prosper.

Recently, some provincial governments, most notably in Ontario and British Columbia, have raised the tax rates on business. In addition, some groups in Alberta and one political party have called for higher taxes on business. This would be a mistake, as Canada has recently slipped in international measurements of tax competitiveness.

Why did business taxes come down? Because Alberta and federal business tax rates were uncompetitive

Changes to federal and Alberta business tax rates resulted in part from two influential studies commissioned by the federal government and the Alberta government. The 1998 federal review of business taxation was commissioned by the federal Liberal government and its goals were threefold: improve job creation and economic growth; improve fairness; and reduce compliance and administrative burdens. Among others, the Report of the Technical Committee on Business recommended eliminating loopholes (broadening the tax base) and reductions in federal and provincial corporate taxes.

In 2000, Alberta commissioned its own review of provincial business taxes, the Alberta Business Tax Review Committee, to review provincial business tax rates. The committee's mandate was to examine the impact of business taxes on Alberta's economic and business climate "and our international competitiveness and to make recommendations to improve Alberta's competitive position." The review was necessary as in 2000:

- Alberta's small business tax rate of six per cent was higher than British Columbia, Nova Scotia and Newfoundland and Labrador and tied with New Brunswick;
- Alberta's general corporate tax rate (15.5 per cent) was higher than Newfoundland and Labrador (14 per cent) tied with Ontario and much higher than Quebec (8.9 per cent).
- In addition, Alberta imposed a specific manufacturing and processing tax which was higher than Saskatchewan, Ontario, Prince Edward Island and Newfoundland and Labrador. (In the remaining provinces, such businesses were taxed at the general rate.)

What were the actions in Alberta?

- The province of Alberta reduced small and large business tax rates between 2001 and 2006.
- While the province initially pledged (in 2001) to reduce the general corporate tax rate from 15.5 per cent in 2001 to eight per cent, by 2004, the province's reductions were drawn out and the general rate was lowered only to ten per cent (as of 2006).

Why business taxes matter

There are multiple policies that matter to a province's success, including property rights, the legal system, the fiscal situation of a provincial government, smart but not burdensome regulation and others. However, tax policy is also a critical factor in attracting investment and employment creation—the latter of particular interest to the average person.

- The 1998 Report of the Technical Committee on Business Taxation set the stage for business tax reform in Canada at the federal and provincial levels. It noted how the business tax structure can affect economic growth in four ways: economic efficiency, investment in capital goods and services, productivity, and growth in the labour force.

- In 2006, KPMG, looking back at the 1993 to 2006 period and the reduction in business taxation around the world, concluded that "it appears that countries that adopt comparatively low tax rates tend to do better in terms of growth and inward investment than those that do not" and that "it appears to be economically and socially desirable for countries to lower corporate income taxes."
- In 2008, the European Commission's Taxation and Customs Union noted that lowered corporate tax rates in OECD member countries "did not give rise to a decrease in corporate income tax revenues relative to GDP". The Commission found a similar trend in the European Union between 1995 and 2006. As the European Commission explained, the factors that could potentially explain the income rate-revenue paradox were "long" but the evidence was clear that the paradox existed.

In summary, if governments unnecessarily complicate the tax system and/or have business tax rates higher than they should, economic growth in the aforementioned areas can be negatively impacted. In reverse, if governments lower business tax rates and broaden the tax base, even corporate tax revenues need not suffer. Regardless, the benefits of lowered business tax rates include economic efficiency, investment in capital goods and services, productivity, and growth in the labour force.

In Alberta, with a look at the 2004-2013 record (2004 being roughly the midway point of provincial business tax reductions), Alberta's business tax reforms, reductions, and market-friendly resource royalty rates in most years allowed the province to succeed in multiple ways. Two examples are profiled in this report: Private sector investment and the creation of full-time jobs.

Private sector business investment 2004-2013: Alberta tops with $535 billion or one-third of all investment

Between 2004 and 2013, total private sector business investment in Canada amounted to $1.6 trillion (in inflation adjusted 2007 dollars). Of that, $535 billion flowed into Alberta. The other provinces saw investment as follows: Ontario ($410 billion), Quebec ($227 billion) and British Columbia ($183 billion).

In percentage terms, Alberta attracted 33.4 percent of that $1.6 trillion in investment, while the share for Ontario was 25.6 percent, Quebec at 14.1 percent and British Columbia's portion was 11.4 percent.

Job creation 2004-2013: Alberta tops with 404,000 full-time jobs

Alberta has also outpaced every province in full-time job creation. Between 2004 and 2013, Canada gained 1.4 million full-time jobs. Alberta saw a net gain of 404,000 full-time positions; Ontario—with a much larger population—saw an increase of 401,000 full-time jobs; Quebec gained 253,000 full-time positions while British Columbia created 208,000 full-time positions.

Alberta created 29 percent of all full-time jobs in that decade compared with Ontario (28 percent), Quebec (18 percent) and British Columbia's portion (15 percent).

Alberta was not just "lucky"

The existence of natural resources is no assurance of prosperity and their absence is no guarantee of poverty. Resource-rich jurisdictions such as Venezuela and Argentina score poorly on many measurements of economic prosperity while others which are resource-poor, such as Singapore and Hong Kong, score highly. In Canada, Quebec, Nova Scotia and New Brunswick all have the potential to develop natural gas fields but have enacted a variety of moratoriums. They have chosen to forego such wealth creation and the employment and tax revenues that would accompany it.

The existence of natural resources can contribute to a high standard of living but it will depend on the policies of the province, territory or country in question—whether such policies allow for a region to flourish. Market-sensitive business taxes are one aspect of policies that allow for and promote prosperity. It is clear that policy, be it national or provincial, matters to private sector investment, wealth and employment creation.

This is no time go backwards

Alberta should avoid the British Columbia model of higher business taxes or the Ontario model of ever-higher personal and business taxes. Alberta—and indeed all of Canada because of Alberta's success—benefitted from smart policies since the 1990s that dealt with structural deficit issues, and then proceeded to reform and lower personal and business taxes, and streamline regulatory matters. All of that helped attract massive private sector investment and a boom in full-time job creation unequalled anywhere else in the country.

There are budget challenges at present, but the province's relatively high expenditures must be addressed as no amount of extra taxation on persons or businesses will close the budget gap without addressing provincial spending. Instead, further tax increases would only harm Alberta's competitiveness, harm investment and ultimately result in employment losses. Alberta should instead retain a key advantage—moderate business tax rates—that helped attract so much private sector investment and created full-time employment that far exceeded the increases observed in other provinces relative to their population.

Low Alberta Business Taxes: Part of Alberta's Pro-Growth Strategy

Introduction

Moderate business and personal taxes rates along with market-sensitive royalty resource rents have been a critical factor in Alberta's success over the past two decades. Over that period, Alberta has topped every other province on multiple measurements: Private sector investment, inter-provincial migration, unemployment rates, and per capita income, among other advantages.

This success has not been accidental, i.e., the presence of oil and gas. After all, selected other provinces also possess oil and gas reserves but chose either not develop their resource sector or have constricted the possibility for it to flourish. For example, Quebec, Nova Scotia and New Brunswick all have had the potential to develop natural gas fields but have enacted a variety of moratoriums.[2] In addition, their relatively high personal provincial tax rates[3] have made their provinces unattractive to employees and entrepreneurs.

[2] Younger, Andrew, 2014. "Andrew Younger statement on Nova Scotia hydraulic fracturing ban."<http://thechronicleherald.ca/opinion/1233809-andrew-younger-statement-on-nova-scotia-hydraulic-fracturing-ban> accessed April 20, 2015; New Brunswick Energy and Mines 2014. "Government introduces moratorium on hydraulic fracturing in New Brunswick." News release. <http://www2.gnb.ca/content/gnb/en/news/news_release.2014.12.1404.html> accessed April 20, 2015; Vendeville, Geoffrey 2014. "Couillard rules out fracking." *Montreal Gazette*, December 16, 2014, <http://montrealgazette.com/news/quebec/couillard-rules-out-fracking> accessed April 20, 2015.

[3] Alberta Finance, 2015. *Budget 2015, Fiscal Plan, Interprovincial Tax Comparisons.* <http://finance.alberta.ca/publications/budget/budget2015/fiscal-plan-complete.pdf> 86 and 100, accessed April 20, 2015.

The existence of natural resources is no assurance of prosperity and their absence is no guarantee of poverty. Resource-rich jurisdictions such as Venezuela and Argentina score poorly on many measurements of economic prosperity, while others which are resource-poor, such as Singapore and Hong Kong, score highly.[4] The existence of resources can contribute to a high standard of living but it will depend on the policies of the province, territory or country in question—whether such policies allow for a region to flourish.

It is critical that Alberta retain its advantage on business tax and resource royalty rates. This is especially critical given that the province began to erode the personal tax advantage in its 2015 budget. It is critical that Alberta not follow the failed model of Ontario or even the reversal of policy in British Columbia on business taxes.

Focus of this report

This report focuses on the question of Alberta's business taxes rates and royalty rates. To do so, it will examine why there is no "free lunch" when governments raise business taxes. It will then trace why business tax rates were lowered by governments around the world over the past several decades. Next, it will discuss the failed rise in royalty rates by the province under ex-Premier Ed Stelmach. The report will then note examples of the success Alberta has had in attracting private sector investment and in the creation of full-time jobs.

Higher business taxes: No "free lunch" for employees or consumers

Business taxes (or "corporate" taxes in most official government budget documents) are an input cost for businesses, large or small. As with the cost of labour (salaries and benefits), leasing costs, capital costs and other inputs, the higher the cost, the lower the rate of return on invested capital.

[4] Heritage Foundation, 2015. *2015 Index of Economic Freedom*. <http://www.heritage.org/index/> accessed April 19, 2015.

If businesses face higher input costs businesses will soon have to: raise prices, forcing consumers to pay more; reduce wages; or, provide a lower return to owners.

For businesses, it is not always possible to raise prices. That is because "Business A" might face a competitor, "Business B" in another province or country where input costs are lower, thus making higher prices impossible.

Even where higher prices charged to consumers are feasible, they usually decrease demand for a good or service. Fewer sales result in lowered income to a business, putting that business back to where it was at the beginning: With expenses that are higher than profits, resulting in an unsustainable and uncertain future. If that results, a worst-case scenario might come to pass: The business goes into receivership, bankruptcy or it simply stops operating.

Of course, in some cases, a business is still profitable after a higher tax is imposed, and the higher tax means that shareholders will see less of a return on investment. Even this scenario is not cost-free: Many businesses are either owned by a sole proprietor (a small business for example), or are large corporations with shareholders. In the latter case, those shareholder-owned corporations often have significant ownership stakes courtesy of index and mutual funds, individual investors, and retirement pension plans such as the Canada Pension Plan, or private pension funds including labour pension funds whose members demand a competitive rate of return.

In sum: if a business can't raise prices or reduce wages it must offer a lower return which makes the investment less attractive; that then make the jurisdiction that raised taxes less attractive.

There is only one taxpayer

Given that businesses must pass higher input costs on to consumers, or reduce employee compensation, or provide a lower return in order to pay for higher corporate taxes (or higher royalty rates where that occurs), it is curious that anyone advocates that businesses should pay higher taxes. After all, the argument that a business can "afford" to pay higher taxes assumes an artificial division between consumers, employees and shareholders. They are in fact most often one and the same. The consumer who pays higher taxes is also an employee who likely has an RRSP or TFSA and is thus a shareholder. That taxpayer, when taxes are raised, pays the extra tax.

Still, that business taxes are ultimately paid by all and are damaging has not stopped some from advocating for higher taxes. In Alberta, the Alberta Federation of Labour has done so[5] (despite the negative effect higher taxes and increased royalties would have on employment). The provincial New Democratic Party has also called for higher taxes on business and higher royalty rates.[6] Even a former Deputy Premier of the Progressive Conservative government, Thomas Lukaszuk, has called for increases to business taxes.[7]

A brief history of why Canada's business taxes were lowered

Albertans should not accept the myth that higher business taxes and royalties are cost-free. To understand why, it is helpful to review why governments of every partisan stripe began to reduce corporate tax rates in Canada, beginning in the late 1990s.

In 1996, the federal Liberal government commissioned a review of Canadian corporate tax rates with three goals: to improve job creation and economic growth; to improve fairness;

[5] Alberta Federation of Labour, 2015. "Provincial budget hurts front-line services as government blames workers." March 26 news release. <http://www.afl.org/albertans_paying_more_for_less> accessed April 19, 2015.

[6] CBC, 2015. "NDP platform promises to reverse cuts, raise corporate taxes." <http://www.cbc.ca/news/elections/alberta-votes/ndp-platform-promises-to-reverse-cuts-raise-corporate-taxes-1.3039816> accessed April 19, 2015.

[7] CBC News online, 2015. "Thomas Lukaszuk bucks Tories, calls for corporate tax hike." <http://www.cbc.ca/news/elections/alberta-votes/thomas-lukaszuk-bucks-tories-calls-for-corporate-tax-hike-1.3043023> accessed April 22, 2015

and to reduce compliance and administrative burdens.[8] The Report of the Technical Committee on Business Taxation reported back in 1998 with a 299-page report that noted the following in the context of the late 1990s[9]:

- Economic efficiency and growth with fairness (of the tax burden) are dual objectives, though as the committee also pointed out, "perhaps in the long run, the tax system that is fairest is the one that best promotes broad economic growth and job creation that benefits all Canadians."[10]
- As a result of internationally non-competitive tax rates, Canada's corporate income tax base was being eroded.[11] The committee's point here was that high Canadian corporate tax rates were not producing the revenue desired, because the tax rates were in fact too high and discouraging investment in Canada. Less investment meant fewer and less profitable corporations to tax; the tax base was shrinking.
- The committee's basic recommendations included: lower corporate taxes, a broadening of the tax base (by eliminating deductions and credits for businesses that complicated the tax system and created loopholes); and a reduction in compliance costs and improved enforcement.

The international context at the time the Committee reported was that Canada's general corporate income tax rate of 43 percent was "below rates in Germany, Italy and Japan but well

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[8] Department of Finance, 1998. *Report of the Technical Committee on Business Taxation*. <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015, 1.7.

[9] Department of Finance, 1998. *Report of the Technical Committee on Business Taxation*. <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015.

[10] Department of Finance, 1998. *Report of the Technical Committee on Business Taxation*. <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015, 1.2.

[11] Department of Finance, 1998. *Report of the Technical Committee on Business Taxation*. <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015, 1.4.

Table 1: Canada-U.S. Effective Tax Rates in 1995 on Costs for Large Business* (%)

Canada			United States		
Labour	**Capital**	**Total**	**Labour**	**Capital**	**Total**
2.8	33.3	9.4	0.2	22.7	5.2

Source: Technical Committee on Business Taxation, 1998, p 3.11

*Non-financial industries

above rates in the United States, the United Kingdom, Mexico and Chile."[12]

Of course, the *effective* tax rate also matters, given various industries were (and some still are) taxed differently. At the time of the 1998 report, the total effective tax rate for large businesses in Canada was almost twice the rate of that in the United States, once taxes on labour and capital were calculated.[13]

Also, Canada's effective corporate tax rates on marginal investment, while below Germany and Japan for both manufacturing and services, and also below that of Italy for services, was above the United States (our nearest competitor), as well as the United Kingdom and Mexico "especially in services."[14] Thus, there was a need to reduce federal and provincial corporate tax rates.

[12] Department of Finance, 1998. *Report of the Technical Committee on Business Taxation.* <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015, 2.16.

[13] Department of Finance, 1998. *Report of the Technical Committee on Business Taxation*. <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015, 3.11.

[14] Department of Finance, 1998. *Report of the Technical Committee on Business Taxation.* <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015, 3.12.

The evidence on business taxes

The 1998 Report of the Technical Committee on Business Taxation set the stage for business tax reform in Canada at the federal and provincial levels. It noted how the business tax structure can affect economic growth in four ways: economic efficiency, investment in capital goods and services, productivity, and growth in the labour force.[15]

In 2006, KPMG, looking back at the 1993 to 2006 period and the reductions in business taxation, concluded that "it appears that countries that adopt comparatively low tax rates tend to do better in terms of growth and inward investment than those that do not" and that "it appears to be economically and socially desirable for countries to lower corporate income taxes."[16]

In 2008, in a paper entitled *The Corporate Tax Rate Revenue Paradox: Evidence in the EU*, the European Commission's Taxation and Customs Union noted that between 1982 and 2004, as corporate tax rates were lowered in OECD member countries, such reductions "did not give rise to a decrease in corporate income tax revenues relative to GDP". The Commission found a similar trend in the European Union between 1995 and 2006 even though corporate rates dropped from 35.3% in 1995 to 25.3% on average by 2006. At the same time, the share of taxes on corporate income as a percentage of GDP rose from 2.7% in 1995 to 3.3% by 2006.

As the European Commission explained, the factors that could potentially explain the income rate-revenue paradox were "long" but the evidence was clear that the paradox existed.[17]

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[15] Department of Finance, 1998. R*eport of the Technical Committee on Business Taxation*. <https://www.fin.gc.ca/pub/pdfs/tsrep_e.pdf> accessed April 18, 2015, 3.1-3.2.

[16] KMPG, 2006. KPMG's Corporate Tax Rate Survey. <https://www.lib.uwo.ca/files/business/KPMGCorporateTaxRateSurvey.pdf> accessed April 22, 2015, 2-3

[17] European Commission, Taxation and Customs Union, 2008. *The corporate tax rate revenue paradox. Evidence in the EU*. <http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_12_en.pdf> accessed April 22, 2015, 4.

In short, if governments unnecessarily complicate the tax system and/or have business tax rates higher than they should, economic growth in the aforementioned areas can be negatively impacted. In reverse, if governments lower business tax rates and broaden the tax base, corporate tax revenues need not suffer. Regardless, lower taxes on business lead to economic efficiency, investment in capital goods and services, productivity, and growth in the labour force.

The Alberta Business Tax Review Committee

Two years after the federal committee reported to then Finance Minister Paul Martin, the Progressive Conservative government commissioned the Alberta Business Tax Review Committee to review provincial business tax rates. The committee's mandate was to examine the impact of business taxes on Alberta's economic and business climate "and our international competiveness and to make recommendations to improve Alberta's competitive position."[18]

The review was necessary as in 2000 Alberta's small business tax rate of six per cent was higher than British Columbia, Nova Scotia and Newfoundland and Labrador and tied with New Brunswick; Alberta general corporate tax rate (15.5 per cent) was higher than Newfoundland and Labrador (14 per cent) tied with Ontario and much higher than Quebec (8.9 per cent). In addition, Alberta imposed a specific manufacturing and processing tax which was higher than Saskatchewan, Ontario, Prince Edward Island and Newfoundland and Labrador. (In the remaining provinces, such businesses were taxed at the general rate.)[19]

In Budget 2001, in response to the Alberta Business Tax Review Committee, the province made clear that combined federal-Alberta corporate tax rates were too high—higher than the United Kingdom, France, Italy and Australia and also higher

[18] Alberta Finance, 2001. *Budget 2001*. <http://www.finance.alberta.ca/publications/budget/budget2001/tax.pdf> accessed April 18, 2015, 118.

[19] Alberta Finance, 2000. *Budget 2000.* <http://finance.alberta.ca/publications/budget/budget1997-2000/2000/tax.pdf> accessed April 22, 2015, 118.

than Alberta's nearest competitor, the United States.[20] Thus the province committed to the "low rate, broad-base" approach—broadening the tax base by removing tax loopholes and then reducing corporate taxes.

The province committed to reduce the general corporate rate from 15.5 percent (where it stood in 2000) to eight percent by 2004[21] (the rate was eventually only cut to ten per cent, this by 2006[22]); align and reduce the manufacturing and processing rate with the general rate; cut the small business rate in half (from six per cent to three per cent); increase the small business tax threshold from $200,000 to $400,000; and eliminate the capital tax.[23]

Saskatchewan

Next door in Saskatchewan, business tax relief came as result of the Business Tax Review Committee, chaired by Jack Vicq, a past associate dean of Commerce at the University of Saskatchewan. The committee was formed in March, 2005 and submitted its report in November that year.

Its key findings were: provincial taxes should be reasonably competitive with neighbouring jurisdictions to allow Saskatchewan's natural advantages to encourage economic development; business taxes should not unduly discourage investment and thereby restrict job creation; business taxes should contribute a reasonable portion of the costs of government programs and services; the administration of business taxes should be effective in terms of being simple, transparent, predictable, stable and creating minimal administrative and compliance costs; and, any tax changes must be fiscally sustain-

[20] Alberta Finance, 2001. *Budget 2001*. <http://www.finance.alberta.ca/publications/budget/budget2001/tax.pdf> accessed April 18, 2015, 118.

[21] Alberta Finance, 2001. *Budget 2001*. <http://www.finance.alberta.ca/publications/budget/budget2001/tax.pdf> accessed April 18, 2015, 119-120.

[22] Alberta Finance, 2001. *Budget 2001*. <http://www.finance.alberta.ca/publications/budget/budget2001/tax.pdf> accessed April 18, 2015, 119-120.

[23] Alberta Finance, 2001. *Budget 2001.* <http://www.finance.alberta.ca/publications/budget/budget2001/tax.pdf> accessed April 18, 2015, 119-120.

able. In 2006, in its budget the NDP government implemented most recommendations.[24]

A word on royalties

The same parties that want higher taxes on business also demand higher resource royalty rates. In context, provincial royalties on oil and gas deposits which belong to the province of Alberta are appropriate. After all, as owners of most of the sub-surface resources, it is appropriate that energy companies pay the owners what amounts to a rent payment for accessing, drilling/mining and profiting from such resources.

However, as with any rent, the rent must reflect market conditions. If a landlord sets the rent too high for an apartment in Calgary or Edmonton or elsewhere in the province, for example, the landlord will quickly find she lacks tenants. (Alternately, if the rent is set too low, the owner of the resource/ apartment building is unnecessarily foregoing income.)

Those who advocate higher resource royalties seem to have forgotten that former Albert premier Ed Stelmach attempted to charge higher resource rents with his ill-fated "Fair Share" policy in October 2007. While any government that owns sub-surface resources, should, on occasion review royalty rates to ensure they are appropriate and market-based, the Stelmach royalty increases did not accomplish such an end.

Instead, the attempt to ignore market realities led to a decrease in investment in Alberta because some wells and projects were made uneconomical. In the end, as the CD Howe Institute wrote in 2011, the province of Alberta did not in fact garner extra royalty revenue. That was because, as the Institute found after comparing oil and gas auction bids for similar geographical and geological land in Saskatchewan and British Columbia during the Fair Share royalty period, it turned out that bids for Alberta land leases (where resource companies would drill or mine for oil and gas) "declined nearly as much as the projected

[24] Saskatchewan, 2006. *A Plan for Growth and Opportunity.* Saskatchewan Finance <http://finance.gov.sk.ca/budget/budget06/SKBusinessTaxReform.pdf> accessed April 24, 2015.

increased in royalty payments."[25] That the Fair Share policy framework was a failure was also demonstrated by the Stelmach government when it later reversed its policy.

The results of smart Alberta policy: Massive private sector investment and a boom in full-time jobs

With the exception of the Stelmach-era diversion on royalty rates, since the mid-1990s Alberta's policymakers have generally been cognizant of the need to allow for moderate tax levels on the personal and business side and market-sensitive royalty rates. The result is that in Alberta, in part due to federal and provincial policy on business taxes, regulation, personal taxes and other areas, past policy decisions helped Alberta prosper.[26]

As some now call for pro-entrepreneur policies to be reversed, it is critical for Albertans to recall the benefits of past, smart tax policy. This report will now briefly detail the 2004-2013 period (2004 being roughly the mid-point of the multi-year reduction in business taxes in Alberta). Two examples of success are profiled: private sector investment (in non-residential machinery, structures and equipment) and growth in the labour force, specifically, full-time employment.

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[25] Busby, Colin and Benjamin Dachis and Bev Dahlby, 2011. *Rethinking Royalty Rates: Why There is a Better Way to Tax Oil and Gas Development*. CD Howe Institute <http://www.cdhowe.org/pdf/commentary_333.pdf>accessed April 19, 2015, 2.

[26] It should be noted that multiple factors have contributed to Alberta's prosperity over the past two decades: Mid-1990s budget prudence by the provincial government which eliminated the deficit, and then the debt, freeing up more money for provincial government programs and capital expenditures rather than debt interest; personal and business tax relief in the late 1990s and early 2000s; streamlined regulatory systems; and a core pro-entrepreneurial attitude on the part of the provincial government which allowed Albertans to further develop and expand opportunities, be they in oil and gas, manufacturing, farming, ranching, the service sector and others.

Private sector business investment 2004-2013: Alberta tops with $535 billion or one-third of all investment

Alberta began to reduce business taxes in 2001 and ended the reductions as of 2006.[27] A useful investigation then is how Alberta fared with reference to private sector investment[28]—keeping in mind that business taxes are one part a policy mix that can affect investment intentions.

Alberta has outpaced every province for private sector business investment including British Columbia, Ontario and Quebec, all of which have significantly larger populations. Between 2004 and 2013, total private sector business investment in Canada amounted to $1.6 trillion. Of that, $535 billion flowed into Alberta with the figures for Ontario at $410 billion, Quebec $227 billion and British Columbia $183 billion.[29]

In percentage terms, Alberta attracted 33.4 percent of that $1.6 trillion in investment, while the share for Ontario was 25.6 percent, Quebec at 14.1 percent and British Columbia's portion was 11.4 percent.

Job creation 2004-2013: Alberta tops with 404,000 full-time jobs

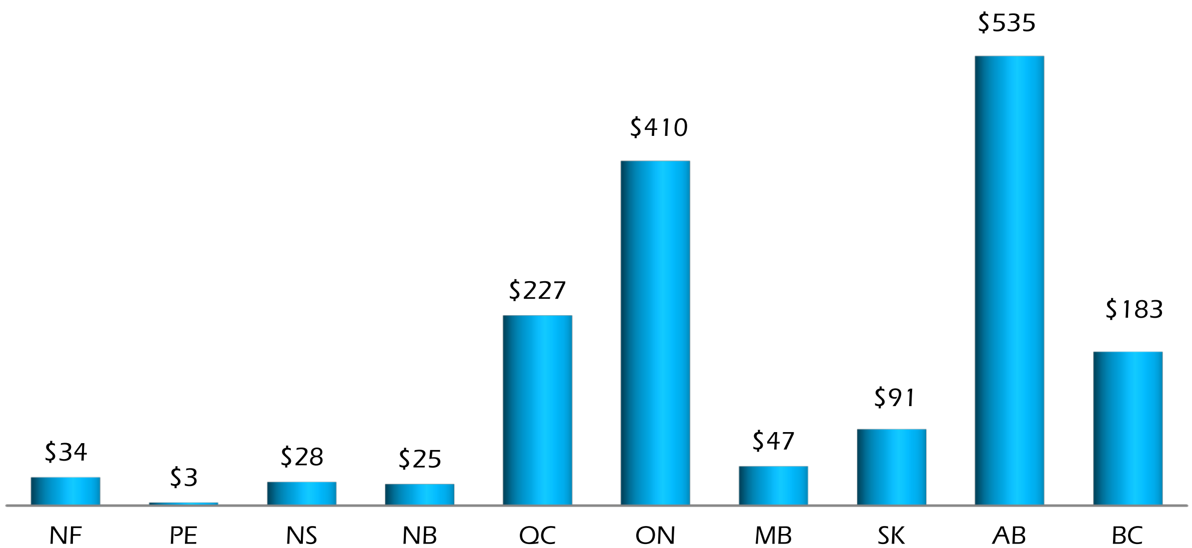
Alberta has also outpaced every province for full-time job creation. Between 2004 and 2013, Alberta saw a net gain of 404,000 full-time jobs. Ontario—with a much larger popu-

[27] The original goal was 2004 but the last reduction in business tax rates came in 2006.

[28] Note that private sector investment here refers to investment in non-residential structures, machinery and equipment. The exclusion of residential construction means that the figures will not be skewed by, for example, a strong attraction to a province for reasons other than the attractiveness of its business climate. For example, one would expect residential construction in British Columbia to be strong, both because retirees prefer its milder weather, and because offshore money is flowing into the Vancouver real estate market in particular. That strength, however, reveals little about a province's ability to attract investment in factories or mines, for example.

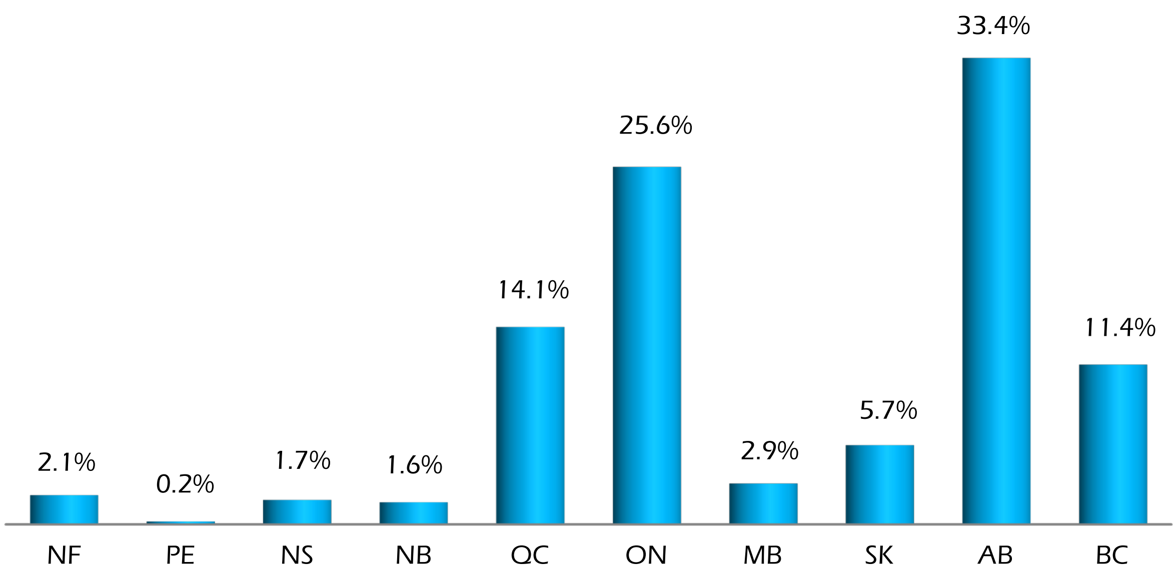
[29] Note that the figures are in constant, i.e., real inflation-adjusted 2007 dollars.

Figure 1: Business investment in non-residential structures, machinery and equipment, total, 2004-2013 (in $ billion (2007$))



Source: Statistics Canada, 2015. CANSIM Table 384-0038.

Figure 2: Business investment in non-residential structures, machinery and equipment 2004-2013 (as a percentage of national total)



Source: Statistics Canada, 2015. CANSIM Table 384-0038.

lation—saw an increase of 401,000 full-time jobs; Quebec gained 253,000 full-time positions while British Columbia saw 208,000 full-time positions created.

In total, in Canada, 1.4 million full-time jobs were created between 2004 and 2013. In percentage terms, Alberta created 29 percent of the jobs compared with Ontario (28 percent), Quebec (18 percent) and British Columbia's portion (15 percent).

Recent business tax realities

The 1998 Technical Committee was one of many that noted the critical importance of the proper business tax structure and rates if a jurisdiction is to prosper. Still, the lessons seem easily forgotten. As of 2005, Canada was fourth best among 90 countries surveyed for the marginal effective tax rate on capital investment; by 2013, Canada had slipped to 36th place of 90 countries.[30] That was in part because despite reductions at the federal level, provinces such as Ontario and British Columbia have been raising corporate taxes.

As noted by authors at the University of Calgary's School of Public Policy, who compiled the rankings, Canada was "losing its appeal as a destination for business investment."[31] Such increases in provincial corporate taxes have been harmful. As Dr. Jack Mintz wrote recently about British Columbia—which raised business taxes in 2013, "Private investment has taken a nosedive in the province, dropping three per cent since 2012. In contrast, the rest of Canada saw an increase of 1.5 per cent."[32]

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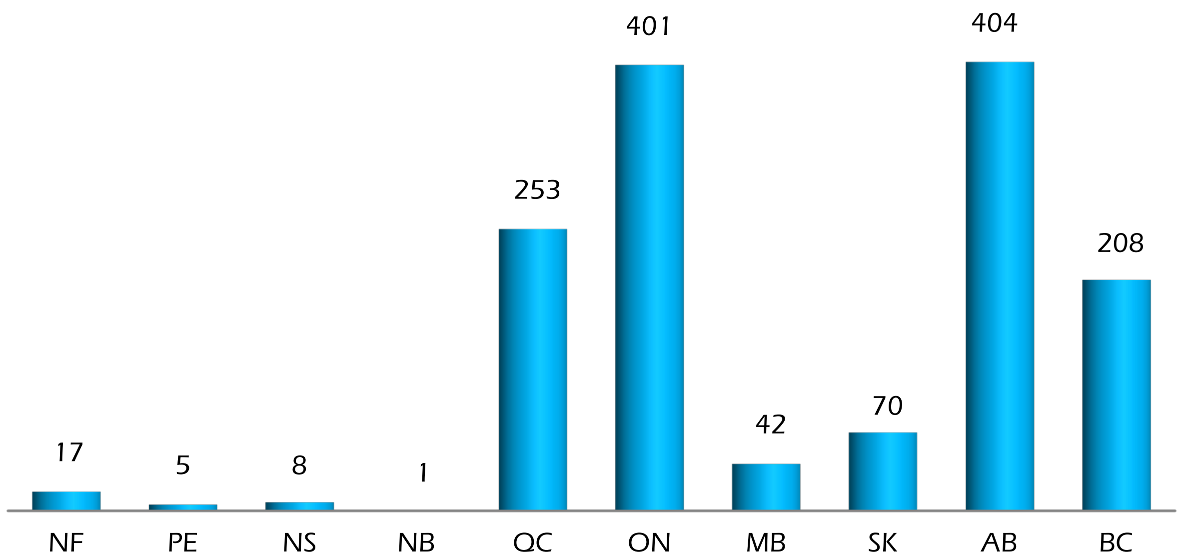
[30] Chen, Duanjie and Jack Mintz, 2013. *2013 Annual Global Tax Competitiveness Ranking: Corporate Tax Policy at the Crossroads*. <http://www.policyschool.ucalgary.ca/sites/default/files/research/mintz-2013-globtax.pdf> accessed April 19, 2015, 17.

[31] Chen, Duanjie and Jack Mintz, 2013. *2013 Annual Global Tax Competitiveness Ranking: Corporate Tax Policy at the Crossroads*. <http://www.policyschool.ucalgary.ca/sites/default/files/research/mintz-2013-globtax.pdf> accessed April 19, 2015, 1.

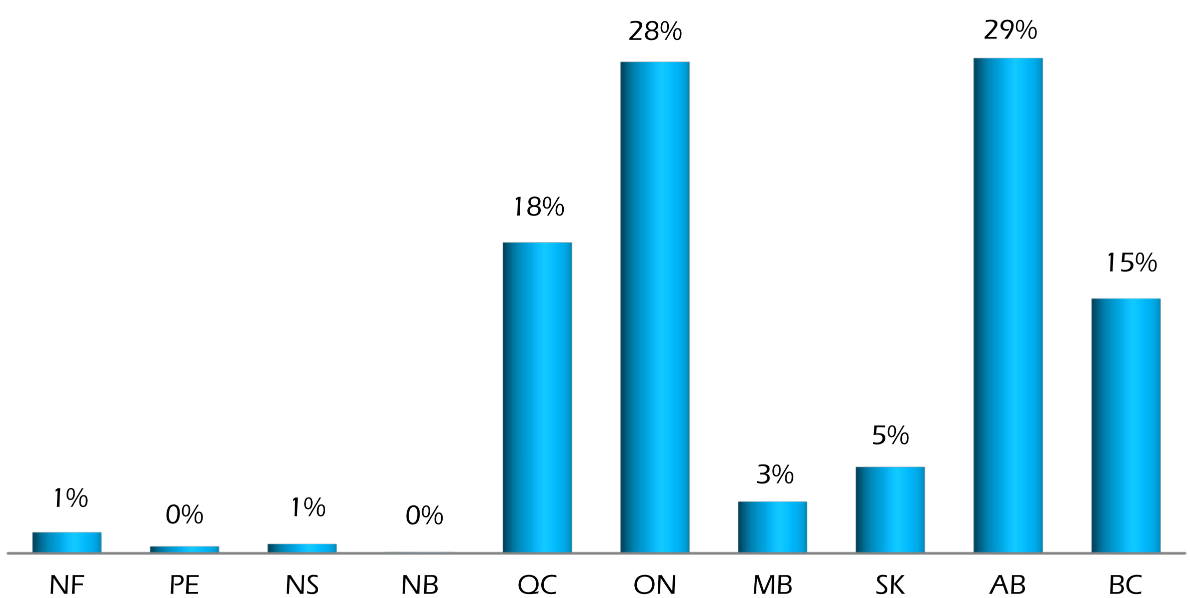
[32] Mintz, Jack, 2015. "Alberta should shun B.C.-style corporate tax hikes." *National Post,* April 15, 2015. <http://business.financialpost.com/fp-comment/jack-m-mintz-alberta-should-shun-b-c-style-corporate-tax-hikes> accessed April 19, 2015.

Figure 3: Total increase in full-time employment 2004-2013 (in thousands)



Source: Statistics Canada. CANSIM Table 282-0002.

Figure 4: Total increase in full-time employment 2004-2013 (as a percentage of national increase)



Source: Statistics Canada. CANSIM Table 282-0002.

Summary: Why go backwards now?

Alberta should avoid the British Columbia model of higher business taxes and the Ontario model of ever-higher personal and business taxes. Albertans have always benefited from smart pro-growth policy since the 1990s, ones that initially dealt with structural deficit issues, and then proceeded to reform and lower personal and business taxes, and streamline regulatory matters.

Budget challenges exist. While this paper did not delve into the expenditure side of the Alberta budget, ultimately, the province's relatively high expenditures[33] must be addressed as no amount of extra taxation on persons or businesses will close the budget gap without addressing provincial spending.[34] Instead, additional tax increases would only harm Alberta's competitiveness, harm investment and ultimately result in fewer jobs. Alberta should instead retain a key advantage—moderate business tax rates—that helped attract so much private sector investment and created full-time employment that far exceeded the increases observed in other provinces relative to their population.

[33] As the Fraser Institute noted in a February 2015 paper on the Alberta government's spending patterns, program spending, adjusted for inflation, amounted to $8,978 per person in 1993/94, $6,828 in 1996/97, $8,965 in 2004/05—back to where it was in 1993/94 before mid-1990s spending reductions—and then soared to $10,967 per person as of 2013/14. The report—which analyzed just program spending and not capital spending or interest costs—thus concluded that $49.2 billion extra beyond inflation and population growth had been spent between 2004/05 and 2013/14, and that as of 2013/14, the province was spending $8 billion more annually on programs than it would have had it increased program spending after 2004/05 only in line with the combined effect of population growth + inflation. (See Milke, Mark and Milagros Palacios, 2015: *Fumbling the Alberta Advantage*.)

[34] Milke, Mark and Milagros Palacios, 2015: *Fumbling the Alberta Advantage*. The Fraser Institute. <http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/fumbling-the-alberta-advantage.pdf> accessed April 19, 2015.

Addendum

Business tax reform and reduction: Welcomed from left to right

Albertans should remember that the province's hard-won prosperity came in part due to lowered personal and business tax rates. With specific reference to business tax rates, the focus of this paper, here are some past and recent comments from academics and politicians on why it was important to reduce business tax rates and why it is critical to Alberta's recovery to keep such an advantage.

The Liberal-appointed 1998 Report of the Technical Committee on Business Taxation on the benefits of lowered corporate tax rates

"Perhaps in the long run, the tax system that is fairest is the one that best promotes broad economic growth and job creation that benefits all Canadians."

Professor and economist Bev Dahlby, University of Alberta, 2001

"A higher rate of economic growth will, over time, improve everyone's standard of living, rich as well as poor."[35]

The Saskatchewan NDP on cutting corporate taxes, in 2006[36]

"The cuts will boost capital investment, enhance business opportunities, create jobs for Saskatchewan youth and are part of the Government of Saskatchewan's Action Plan for the Economy.

[35] Alberta Finance, 2001. *Budget 2001*. <http://www.finance.alberta.ca/publications/budget/budget2001/tax.pdf> accessed April 18, 2015, 121.

[36] Saskatchewan Finance, 2006. "Province cuts business taxes."<http://www.gov.sk.ca/news?newsId=b13ade5f-89d3-4d9a-b234-3ff17dadc066> accessed April 19, 2015.

'Our Government is making the most significant business tax cuts in Saskatchewan's history,' [Finance Minister Andrew] Thomson said. 'Our new corporate tax structure will be one of the most competitive and business-friendly in Canada, ultimately leading to more job creation and employment opportunities for Saskatchewan's youth.'"

Professor and economist, Dr. Jack Mintz, in 2015

"With an Alberta election due May 5, all sorts of tax policy claims are being made. The most interesting one by the Alberta Federation of Labour is that recent British Columbian corporate tax increases yielded revenue and more jobs.

"I am not sure what planet these claims come from but B.C. is no example of strong private investment or job creation. On April 1, 2013, B.C. raised the provincial corporate income tax rate from 10 to 11 per cent. On the same day, it also reversed its decision to harmonize its sales tax with federal GST, significantly increasing sales taxes on capital purchases to the order of 3.5 percentage points. B.C. now has the sixth-highest tax burden on capital investment among industrialized jurisdictions, rivalling only NDP's Manitoba as the least tax competitive economy in Canada."[37]

[37] Mintz, Jack, 2015. "Alberta should shun B.C.-style corporate tax hikes." *National Post,* April 15, 2015. <http://business.financialpost.com/fp-comment/jack-m-mintz-alberta-should-shun-b-c-style-corporate-tax-hikes> accessed April 19, 2015.