

# **The Northwest Territories Fiscal Options for a Stronger Economy**

Presentation to  
Members of the Legislative Assembly  
of the  
Northwest Territories  
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# Overview

- Global context
- Spending and potential cuts
- Revenue options
- Conclusion: fiscal choices that support a strong future economy

# Global Context

- Low global energy prices, other commodities
- Prices likely to remain low for a long time
  - Not just a result of short term supply (inventories, Iran exports, etc.)
  - End of commodities supercycle?
- Low price causes include
  - Demand – lower levels of growth in Asia and elsewhere (not 10% forever)
  - Global supply in long term
    - Technology – additional capacity can be turned on if and when prices rise
    - OPEC damaged its ability to rein in production?

# Local impact of global changes

- Reduced NWT non-renewable energy investment
- Sahtu oil needs to be \$100 / bbl to get to market
- Most long term forecasts lower ~ \$50 (S&P, Goldman, etc.)
- ‘The oil and gas industry has packed up and left the NWT. We don’t expect to see any exploration for probably 10 years.’ – Robert McLeod, Premier
- Potential employment impacts of O&G and mining
- Workers, families, communities impacted
- Potential impact on GNWT revenues
- Out-migration

# Spending

- Knee-jerk reaction prior to 2008 – cut, cut, cut
  - Economists: cuts a bad idea, need stimulus instead
  - Governments used stimulus, staved off collapse
- Cut now?
  - Impacts on employment
  - Impacts on private sector business
  - Out-migration
- Focus on the future.

# Spending and the future

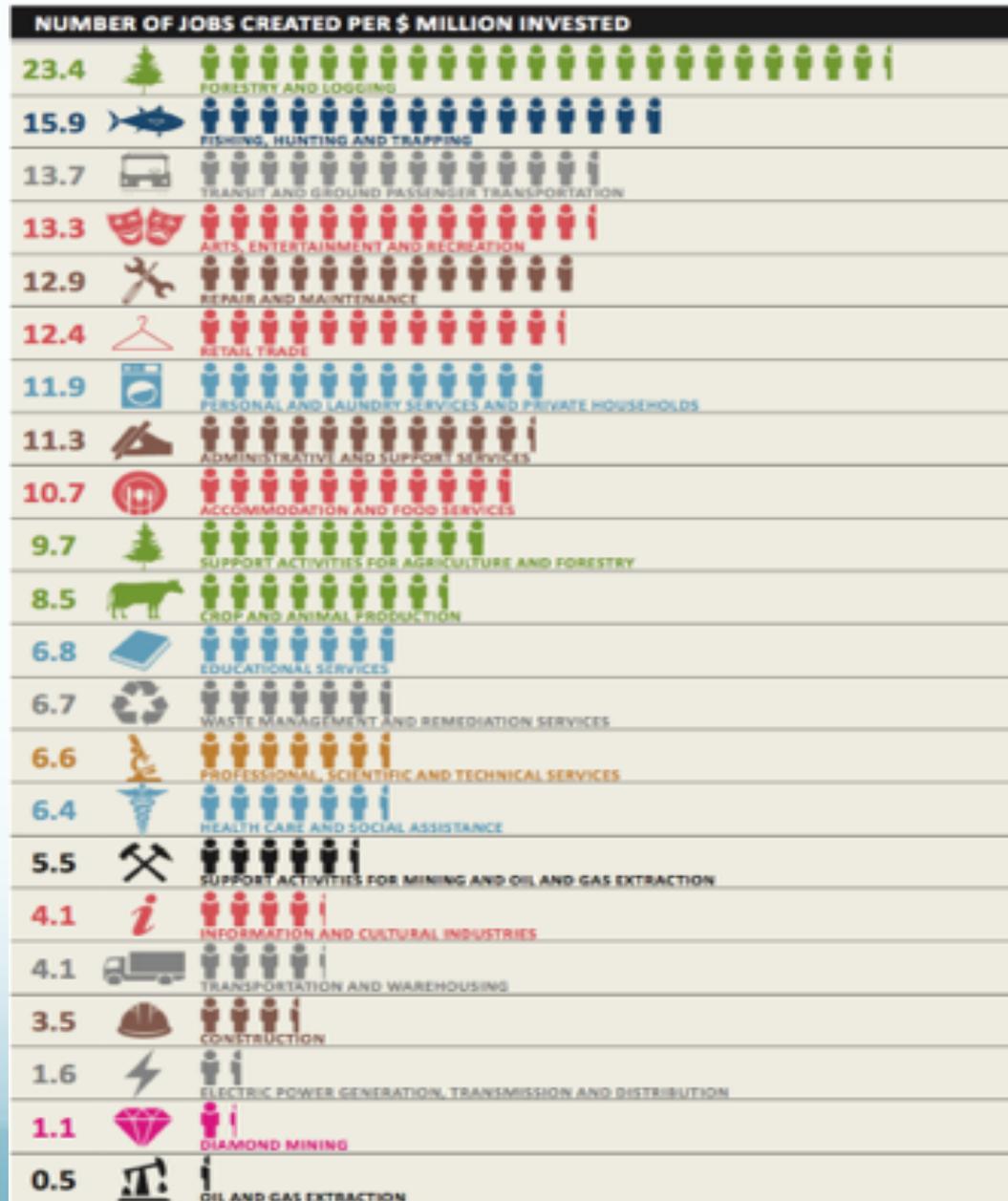
- Plan around future – where are the jobs?
- Spend on non-renewable resource extraction? (E.g. roads and bridges leading to extraction sites?)
  - Risky, according to forecasts
- Prepare for an economy that is more diversified, local, durable
  - i.e. sustainable - in terms of social, environmental, and economical needs (triple bottom line).
- Also financial support for those most vulnerable to high cost of living.
- Screening lens – is this spending item helping to build sustainable economy?

# Spending for a sustainable economy

## Sahtu report examples

- Renewable energy
- Energy efficiency
- Tourism
- Traditional harvest
- Agriculture and sustainable forestry
- Cultural, arts, crafts
- Etc

# Bang for your buck



# Spending – impact of potential cuts

Government spending cuts impact beyond civil service.

- families, communities
- private sector businesses and employees
  - There would be both indirect and induced job losses
  - 2008 cuts proposed - \$135 million and 223 civil service jobs. Additional job losses estimated on the order of 1,000 jobs.
  - Induced jobs are local jobs. Multipliers not published by GNWT.
  - Based on other multipliers, depending where cuts made, for every 10 civil servants cut, lose on order of 5 jobs +/- in private sector.

# Revenues

- Programs, services and infrastructure don't grow on trees.
- Need money, in order to spend on things voters want
  - kids: 'Duh'
  - adults sometimes need to be reminded
    - Taxes: 'the price we pay for civilization'
- 2008 letter from 117 economists:
  - "Economic theory and historical experience gives a clear and unambiguous answer: it is economically preferable to raise taxes on those with high incomes than to cut state expenditures."
- Anti-tax sentiments seem to be waning; governments know the polling, have moved on, and raised taxes.

# Governments raising taxes - examples

- Alberta conservative government 2015
  - Progressive income tax, moved away from flat tax.
  - Tobacco taxes (\$40 to \$45 per carton), Alcohol tax (by 22¢ per litre) fuel tax (from 4¢, to 13¢ per litre).
- Late 2015 Alberta's NDP:
  - added additional tax brackets and raised the personal income tax rates.
  - raised corporate taxes from 10% to 12%
- Nfld conservative government 2015 budget—a range of tax and fee increases including:
  - an increase in the HST, by 2%
  - new tax rates for highest income earners and two new tax brackets at the top end.

# Governments raising taxes - examples

- Ontario, 2014 Liberal government
  - raised top rate and changed brackets to add another bracket
  - increased Tax on aviation fuel (from 2.7¢ per litre to 6.7¢), increased Tobacco tax rate (12.350¢ to 13.975¢)
- Federal government 2015:
  - Raised the top personal income bracket from 29% to 33%
- BC government 2012
  - introduced higher personal income tax bracket at the top.
  - raised corporate taxes
- Quebec 2012 Raised
  - personal income tax rates,
  - taxes on dividend income and capital gains.

# Personal income tax revenue

## Comparison of Possible NWT Revenue based on Provincial Personal Income Tax Rates

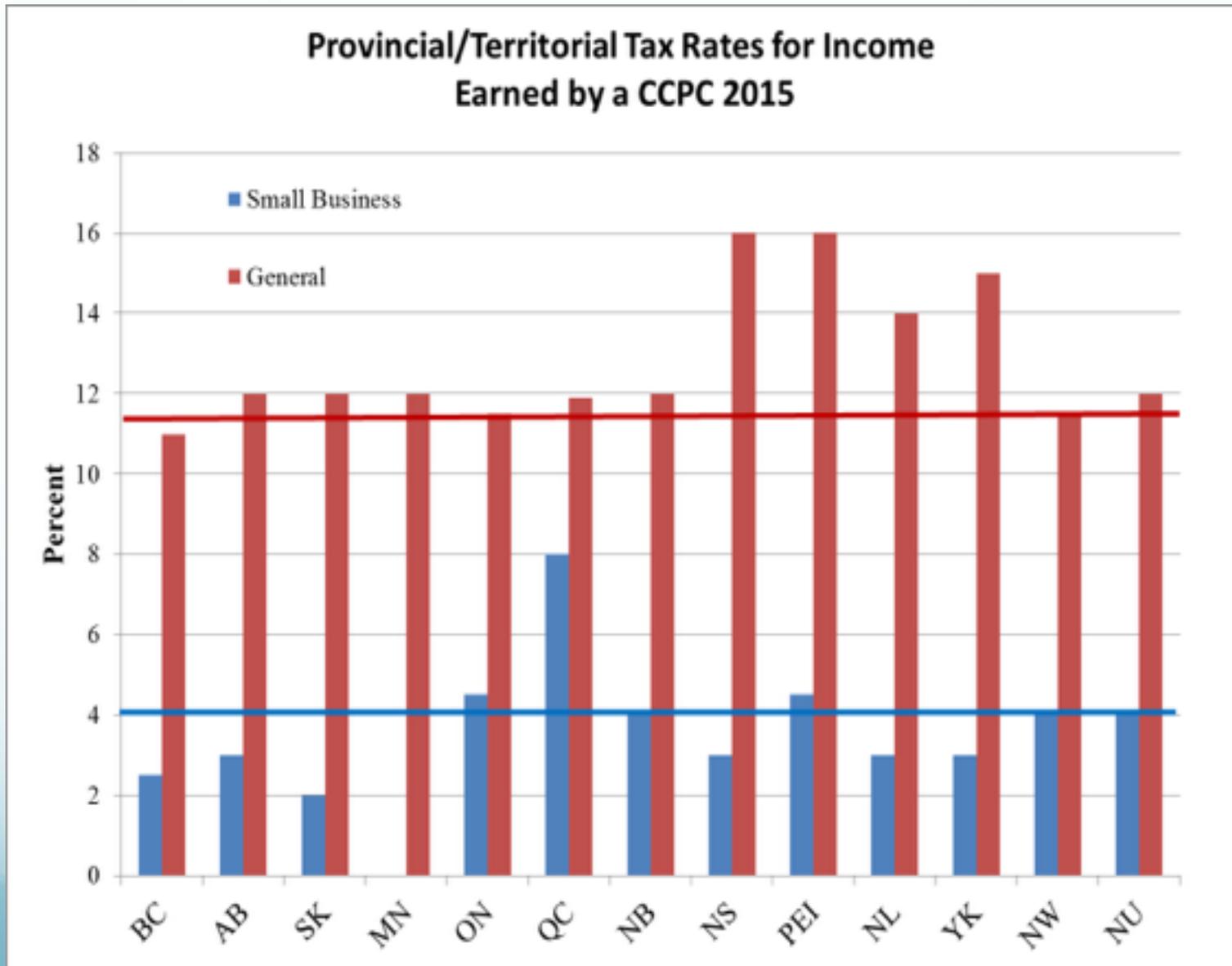
Estimated from individual NWT tax filers, 2013 personal income



# Personal income tax and payroll taxes

- Personal income tax
  - Adopt mean average: \$82 M / yr.
  - Room to increase top bracket by 2% and remain below average of other provinces and territories
- Payroll tax
  - Reduces revenue leakage, penalizes workers
  - Can raise for top earners
  - Can reduce for lower earners

# Corporate tax rates – room to move



# Capital tax, corp & resource income taxes, royalties

- Capital tax
  - \$12.6 M / yr
- Corporate income tax
  - 1% could raise \$8 M/yr
- Resource income tax
  - \$34M per diamond mine / yr
  - For NWT Heritage Fund?
- Royalties
  - Review and test buyers market to determine whether people of NWT are getting the best price

# Sales tax

Federal and Provincial/Territorial Sales Tax Rates			
Provinces and Territories	GST	PST/RST/QST	HST
British Columbia	5%	7%	
Alberta	5%		
Saskatchewan	5%	5%	
Manitoba	5%	8%	
Ontario	(5%)	(8%)	13%
Quebec	5%	9.98%	
New Brunswick	(5%)	(8%)	13%
Nova Scotia	(5%)	(10%)	15%
Prince Edward Island	(5%)	(9%)	14%
Newfoundland and Labrador	(5%)	(8%)	13%
Yukon	5%		
Northwest Territories	5%		
Nunavut	5%		

( ) indicate implicit GST and PST included in the HST

# Sales tax

- HST system
  - 8% = \$59 M/yr
- RST retail sales tax
  - 5% = \$30 M/yr
  - + 1% = + \$6 M/yr
- Exemptions for food, utilities, essentials
- Credits focused on lower income people – help address cost of living

# Tourism-related taxes

- Recent developments:
  - Asian tourism growth
  - Hotel construction (3 planned / under construction)
  - 8 new operators (not from NWT – revenue leakage)
- Hotel tax (based on 2008 levels – occupancy up):
  - 8% = \$4 M/yr
  - 16% = \$8 M/yr
- Airport departures tax:
  - \$40 per flight = \$4.7 M/yr
  - \$80 per flight = \$9.4 M/yr
- Cost a small portion of overall trip costs

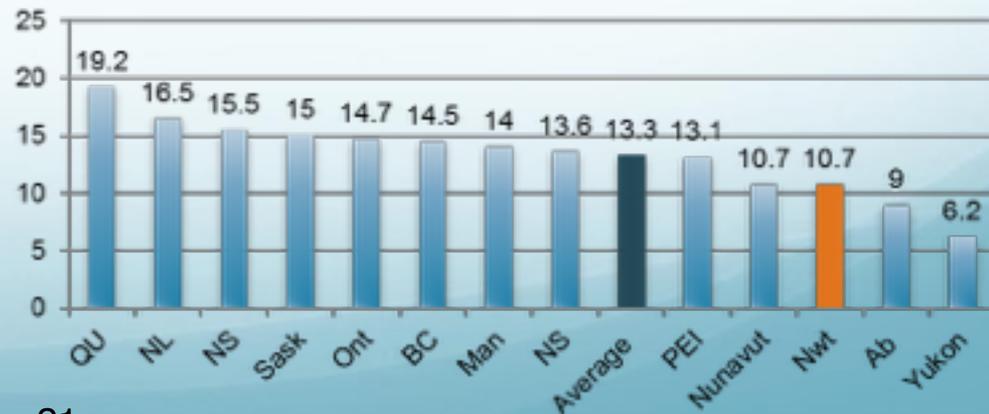
# Tobacco and liquor

- Helps reduce
  - youth uptake
  - health care spending
- Tobacco – increase to raise \$1 M – \$2 M per year
- Liquor – increase to raise \$4.8 M

# Fuel tax, carbon tax, commercial freight toll

- Fuel tax – transportation and non-transportation
  - \$18 M / year
- Carbon tax – more jurisdictions adopting carbon pricing. BC growth better than CDN average. \$41 M / year.
- Commercial freight toll
  - \$15 M / year

**Gasoline Tax by Prov/Territory  
(cents / litre)**



# Smart taxes

- Adjust mix of taxes to achieve goals
  - Tax bads (e.g. pollution): will get less of them
  - Reduce taxes on goods (income): get more
  - Removes distortions, boosts economic efficiency
- Taxes already used for non-fiscal goals
  - E.g. tobacco use, retirement savings

# Conclusion – fiscal choices for the future

- Context: little oil & gas development in next 10 years
- Spending
  - Can help support a more diverse and local economy
  - Spending review lens (environmentally, socially, economically sustainable)
- Revenues
  - Above-discussed numbers total \$250 M + (not include RIT or royalties)
    - Not suggest they all be adopted – a suite of options
    - Shows there are options other than cuts – broaden the discussion
  - Needs full number-crunching.

**Thank you!**

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