

Recommendations for 2015 GNWT Budget Dialogue

Presented by Alternatives North

The 2014 Budget Dialogue brochure notes:

“Increasing our revenues is going to be challenging. The NWT economic activity is only three-quarters of what it was eight years ago because resource production is declining and business capital investment is significantly lower. The lower levels of economic activity are one important reason why the NWT population growth is flat... We need to grow the economy to increase revenues to meet expenditure demands and infrastructure investment needs.”

Alternatives North’ suggests that the problem is not that economic activity is declining but that the GNWT took a timid approach to raising new revenues from economic activity. Our presentation will review some measures that we have suggested before and that would have raised significant revenue for public services and infrastructure. We continue to propose raising taxes, but we approach this from a smart tax reform perspective. The essence of smart taxes is to tax “bads” such as pollution but not “goods” such as income. All revenue amounts indicated were calculated for prior reports and may not represent current amounts as they may have increased or decreased.

Tax “bads” such as pollution not “goods” such as income.

Top Ten Ideas for Smart Tax Reform

- Reduce tax rates for low and middle income brackets
Despite high and rising average incomes, inequality and poverty are serious problems in the NWT. The lowest income bracket tax rate should be reduced by 3%, the next lowest by 2%, and the next by 1%. With further annual 1% reductions for each bracket for another three years, no income tax would be paid on the first \$35,986 earned by anyone in the NWT. This would reduce revenues by \$40 million by the fourth year.

- Introduce a carbon tax

The concept of a carbon tax is generally accepted. A phased in approach to this tax starting with \$10 per ton in year one and rising to \$50 in year five would raise on the order of \$41 million per year. Revenue should be invested in a Green fund for projects that conserve energy, convert heating and transportation systems, and convert energy generation systems from diesel to renewable or less polluting sources.

- Introduce a resource income tax
Rents from natural resources development should be collected from a resource income tax, especially now that we have devolution. Such a tax would have raised hundreds of

millions of dollars per year. Even though we are late in the process, a resource income tax remains a viable source of revenue. Up to 50% of the revenue should be invested in the Heritage Fund in order to share the benefits from non-renewable resources with future generations.

- **Introduce capital tax:**
Some corporations are able to avoid paying income tax by using accounting techniques to hide income. In order to capture some of this revenue leakage, a capital tax should be phased in over two years, raising \$12.6 million per year.
- **Increase payroll tax to 2.5%**
The GNWT loses on the order of \$12 million dollars per year from people earning incomes in the NWT who live and pay taxes elsewhere. We should increase the payroll tax from 2% to 2.5% for wages and salaries above the 75th percentile of today's income distribution and reduce it for lower incomes so that the total net revenue impact is zero.
- **Hotel and airport departure tax**
These taxes are common throughout Canada and are unlikely to affect tourism, considering their small proportion of overall travel costs. A hotel tax of 8% and an airport departure tax of \$40 per flight should be instituted immediately, raising about \$8.7 million per year.
- **Increase tobacco tax and tax on liquor revenues**
Taxation helps reduce tobacco consumption, particularly among teenagers. Tobacco taxes should be increased to the current limit set in legislation. It could raise approximately \$1.3 million per year, and similar amounts in following years. If the NWT liquor mark up was increased by 40% over two years, it would raise prices of beer, wine and spirits by roughly 15% or less, and would raise about \$4.8 million in annual revenues. Revenues should be targeted to programs working on drug and alcohol addictions.
- **Transportation Fuel taxes**
Transportation fuel taxes in the NWT are "among the lowest in Canada" and significantly below the national average. The Government has not allowed fuel taxes to increase since 1997, letting them slip significantly against total fuel prices. Transportation fuel taxes should be restored to 1997 values over two years. The increased costs for low income residents would be offset by income tax changes.
- **Heating fuel tax**
Over 4 years, we should introduce a progressive heating fuel tax and invest revenues in home energy efficiency retrofits, focusing on lower income residents. We could

decrease costs for home owners by offering loans for retrofits that are paid back from decreased heating costs.

Together, transportation and heating fuel taxes would have raised \$17.8 million per year.

Our Spending Priorities

Several of the resource income suggestions are linked to specific program spending (Green Fund, Heritage Fund, programs for addictions, energy conservation and production, and home retrofits). In addition to these priorities, Alternatives North suggests a focus the following areas:

- Increase support for the Anti-poverty strategy
- Invest in community based early childhood education and care, focusing on 0 to3 years
- Remove financial barriers for parents trying to access early childhood programs
- Invest in economic development activities that are sustainable at the community level
- Invest in supplementary health programs for residents who are not currently covered
- Invest in public transportation systems
- Invest in community food sufficiency programs

—