

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

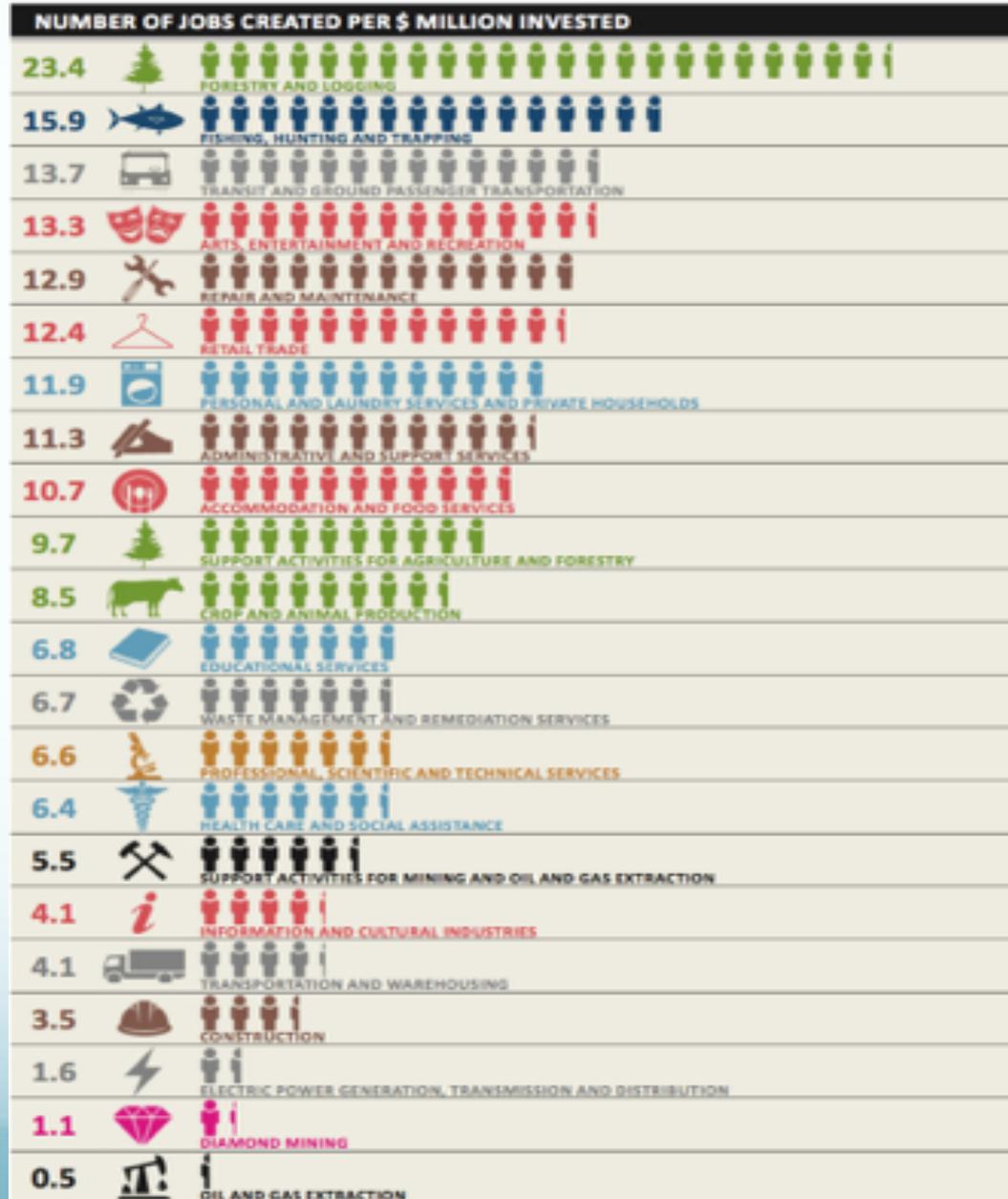
- Plan around future – where are the jobs?
- Spend on non-renewable resource extraction? (E.g. roads and bridges leading to extraction sites?)
 - Risky, according to forecasts
- Prepare for an economy that is more diversified, local, durable
 - i.e. sustainable - in terms of social, environmental, and 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

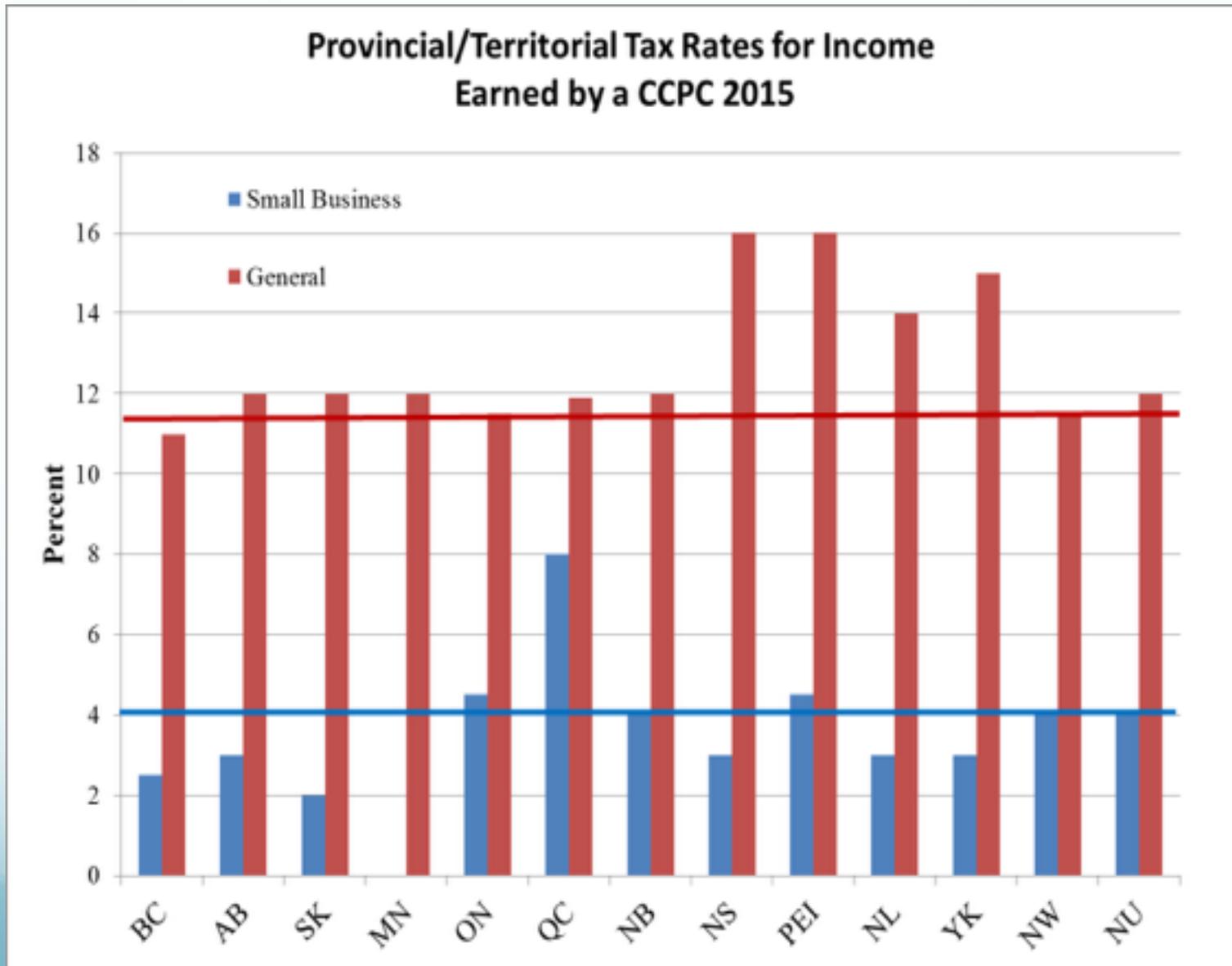
Estimated from individual NWT tax filers, 2013 personal income



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

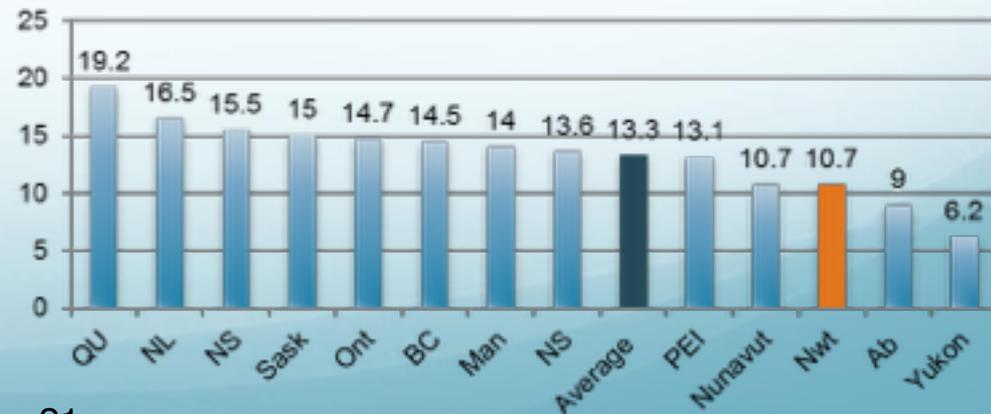
Tobacco and liquor

- 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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