

## 4. Jurisdictional analysis

An overview of the performance of each jurisdiction is presented in this section. The ratios—corporate capital tax as a percentage of (1) own-source revenue (i.e., the revenues collected within a particular jurisdiction and excluding transfers), (2) business profits, (3) gross domestic product, and (4) corporate income tax—are used to rank all jurisdictions according to their level of corporate capital tax usage over the last 12 years.

For each jurisdiction, the ratio rankings for 2000/01 are presented. Recall that a high ranking indicates

that a jurisdiction was a relatively high user of corporate capital taxes while a low ranking indicates low usage. In addition, the current corporate capital tax rates and revenue figures are provided. The historical results for all four measures are also graphically presented. Please note that each indicator graph has the same scale throughout the study. That is, figures 6.1, 7.1, 8.1, and so on all use the same scale in order to facilitate inter-jurisdictional comparisons. The changes in the corporate capital tax rates over the last 12 years are contained in table 8.

### Jurisdictions

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## Federal Government

The federal government continues to be one of the Canadian jurisdictions that uses corporate capital taxes relatively less than others, based on the four measures used. Its low rankings have been consistent over the period from 1989/90 to 2000/01 that was examined.

Between 1989/90 and 1992/93, as illustrated in figures 6.1 to 6.4 (particularly figure 6.2), a substantial rise in the use of corporate capital tax by the federal government occurred. It is interesting to note that even though there was a relatively large increase in usage by the federal government, its usage levels did not come anywhere close to those of provinces like Saskatchewan and Quebec. The increase in corporate capital tax usage was due to several policy changes enacted by the federal government as well as the downturn in the economy during the early 1990s.

First, the federal government introduced a corporate capital tax of 0.175% on the taxable capital of large corporations<sup>27</sup> in 1989 (McQuillan and Cochrane 1996). This change resulted in a real one-year increase of 464.4% in corporate capital tax revenue between 1989/90 and 1990/91.

Second, the federal government raised the large corporations tax rate from 0.175% to 0.200% in 1990, which caused corporate capital tax revenues to jump another 52.1% to their all-time highs—recorded in fiscal years 1991/92 and 1992/93 (McQuillan and Cochrane 1996). In fact, the federal government had its highest rankings for corporate capital tax usage during the 1991/92

fiscal year: fifth for corporate capital taxes as a percent of own-source revenues, fifth for corporate capital taxes as a percent of business profits, fifth for corporate capital taxes as a percent of gross domestic product, and sixth for corporate capital taxes as a percent of corporate income tax revenues (see tables 4 to 7).

In addition to the increase in rates, the recession of the early 1990s contributed to the change in ranks on the corporate capital tax usage indicators. Corporate capital tax revenues remained relatively stable throughout the recession due to their profit-insensitive nature. That is, the base upon which the corporate capital tax is assessed is largely unaffected by short-term fluctuations in business profits.

Third, the large corporations corporate capital tax rate was increased to 0.225% and an additional surcharge of 12% was placed on large deposit-taking institutions with taxable capital of over \$400 million in 1995 (McQuillan and Cochrane 1996).

In terms of rankings for the federal government, there were two note-worthy periods. First, the federal government moved up quite substantially in the corporate capital tax usage ratios between 1989/90 and 1991/92 due to the reasons outlined above.

The second period of change saw the opposite movement: a decline in rankings indicating relatively less corporate capital tax usage. Three of the federal government's usage rankings saw marked declines be-

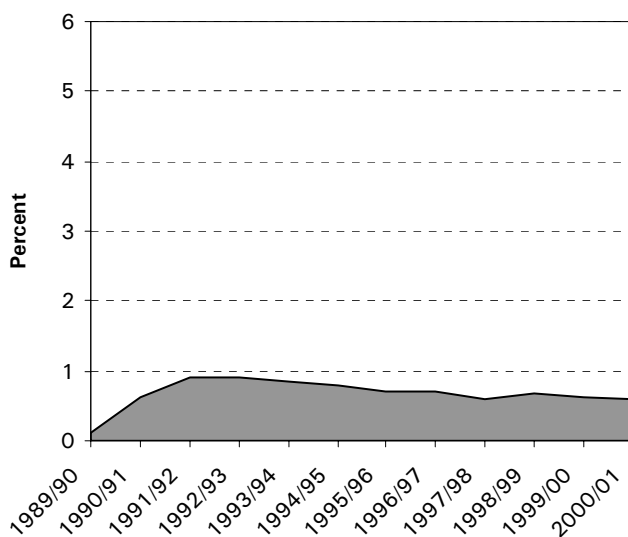
### Summary and rankings for the federal government, 2000/01

Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	8	0.6
of Business Profits	8	0.9
of Gross Domestic Product	8	0.11
of Corporate Income Tax Revenue	9	4.1
<b>Tax Rate (%)</b>		
Non-Financial	0.225 <sup>a</sup>	
Financial	1.0 / 1.25 / 1.40 <sup>b</sup>	
<b>Tax Revenue (\$millions)</b>	\$1,124.3	

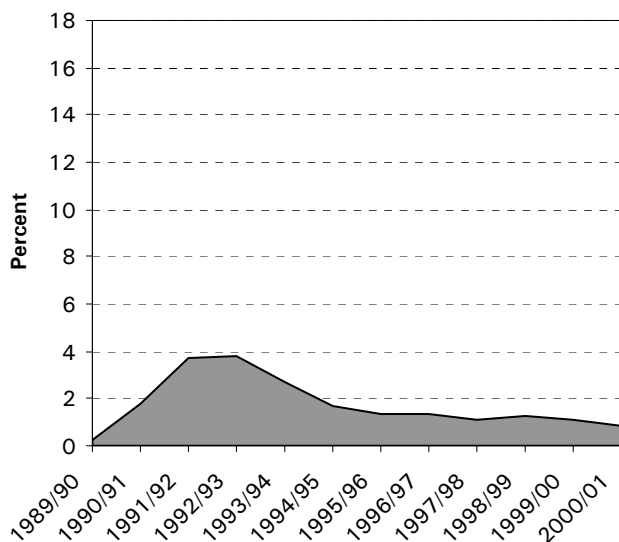
(a) Applies only to corporations with a taxable capital base of over \$10 million.

(b) The lower rate is applied to firms with taxable capital of between \$200 million and \$300 million; the middle rate is imposed on corporations with taxable capital of over \$300 million. The rate of 1.40% is the result of a 12% surcharge, which is applied to corporations with taxable capital of over \$400 million.

**Figure 6.1: Capital tax as a percent of own-source revenue for the Federal Government**

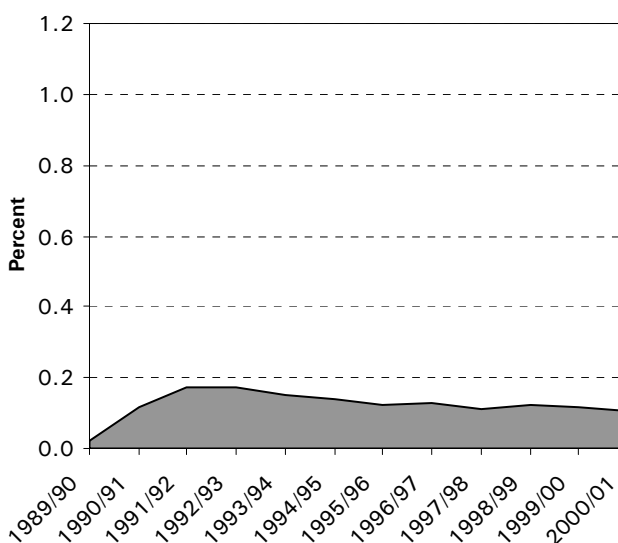


**Figure 6.2: Capital tax as a percent of business profits for the Federal Government**

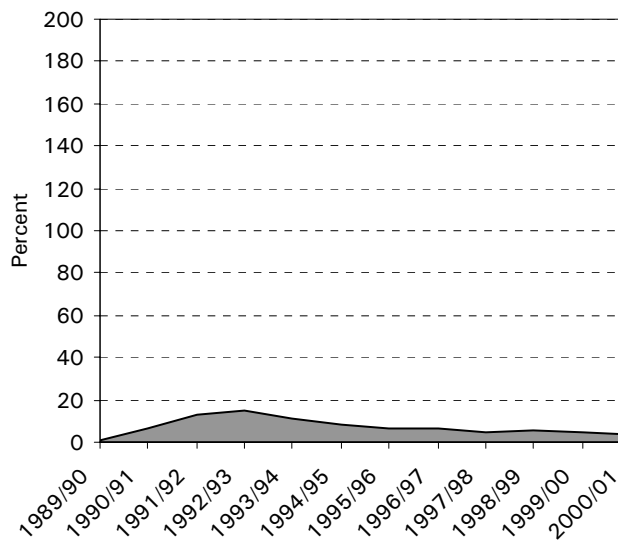


tween 1996/97 and 1997/98. Specifically, the rankings for corporate capital taxes as a percent of (1) own-source revenue, (2) business profits, and (3) gross domestic product all declined from sixth position to eighth position. The ranking for corporate capital tax revenues as a percent of corporate income tax revenues remained the same. This drop was not, however, due to a change in corporate capital tax policy by the federal government but rather to increased usage levels by Nova Scotia and New Brunswick when they both introduced a non-financial institution corporate capital tax (*NB Budget 1997; NS Budget 1997*).

**Figure 6.3: Capital tax as a percent of GDP for the Federal Government**



**Figure 6.4: Capital tax as a percent of corporate income tax for the Federal Government**



Although the federal government remains one of the lower users of corporate capital taxes in Canada, their high economic cost and the fact that Canada is one of only three industrialised countries to levy such a tax at the federal level creates a powerful argument for their elimination.

Sources: McQuillan and Cochrane 1996; Milner 1999; *Master Tax Guide 2000*.

## British Columbia

The Province of British Columbia is a relatively heavy user of corporate capital taxes in Canada as indicated by their high rankings. It should be noted, however, that the government has committed itself to eliminating the non-financial institutions corporate capital tax in September of 2002 (BC Ministry of Finance and Corporate Relations 2001).

Interestingly, prior to 1992, British Columbia was one of Canada's lowest users of corporate capital taxes. For instance, in the first year of the historical series provided (1989/90), British Columbia ranked tenth in all four measures of corporate capital tax usage, behind only Alberta. Prior to 1992, the provincial government raised very little in the way of corporate capital taxes and did not impose a corporate capital tax on non-financial institutions. Specifically, the province only imposed a 2% corporate capital tax on financial institutions (FMS Data 1989–1992; *BC Budgets* 1989–1991).

In 1992, this relatively low dependence on corporate capital taxes came to an abrupt end when the newly elected government introduced a non-financial institutions corporate capital tax with a rate of 0.3% and increased the existing financial institutions corporate capital tax rate to 3.0% (BC Ministry of Finance and Corporate Relations 1992). As a result of these changes, revenues increased 1,998% in one year, from roughly \$13 million in 1991/92 to over \$280 million in 1992/93.

Figures 7.1 to 7.4 illustrate the dramatic effect of these changes. British Columbia is one of only a few Canadian provinces to experience dramatic changes in its corporate capital tax usage. Corporate capital tax usage, as indicated by all four measures, spikes significantly in 1992/93 after the introduction of the non-financial institutions corporate capital tax and the increase in the existing financial institutions corporate capital tax rate. This represents the largest single increase in corporate capital tax usage in Canada over the last 12 years.

Other changes to the corporate capital tax system were also made after 1992/93. In 1994, the taxable capital threshold<sup>28</sup> for the non-financial institutions corporate capital tax was increased by \$250,000, from \$1.25 million to \$1.5 million (BC Ministry of Finance and Corporate Relations 1994). In addition, the financial institutions taxable capital exemption was raised from \$500 million to \$750 million (BC Ministry of Finance and Corporate Relations 1994).

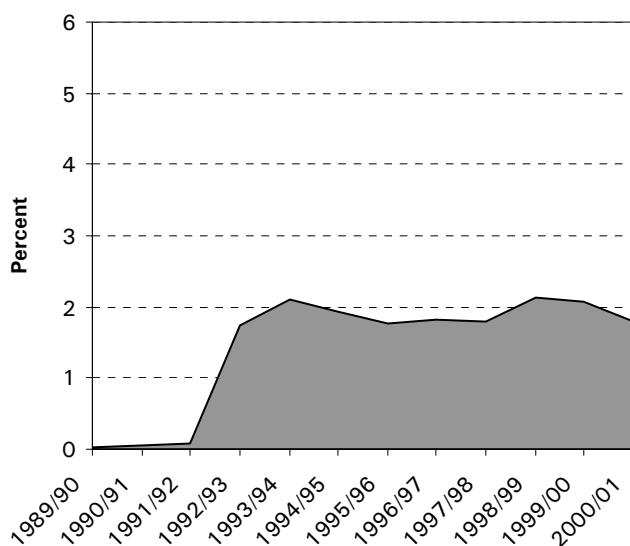
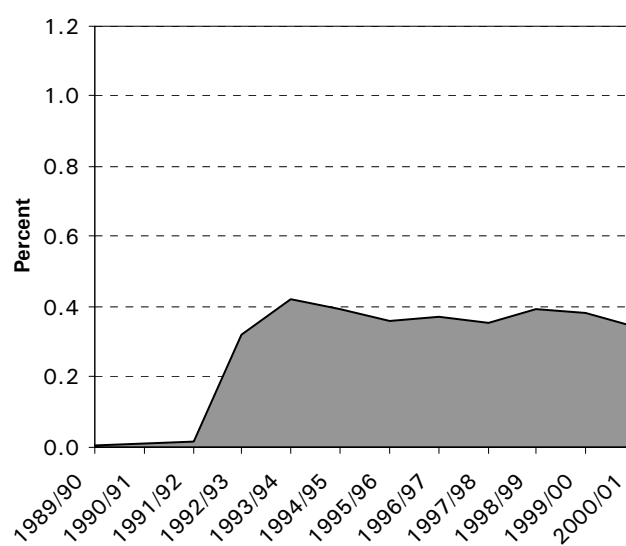
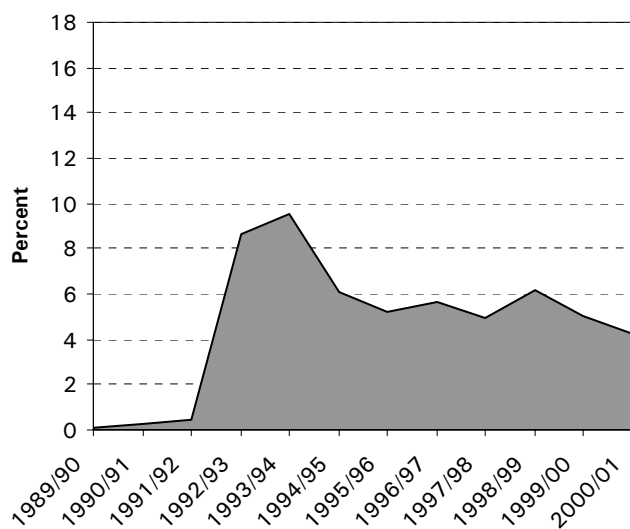
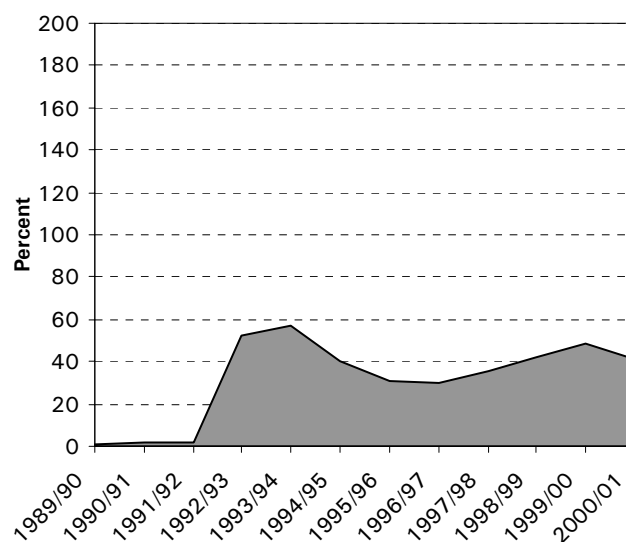
In 1998, the threshold level for the non-financial institutions corporate capital tax was again increased from \$1.5 million to \$5 million (BC Ministry of Finance and Corporate Relations 1998). In addition, the structure of the tax rate for financial institutions was altered to provide a 1% rate for corporations with less than \$1 billion in taxable capital and a rate of 3% for those with over \$1 billion (BC Ministry of Finance and Corporate Relations 1998).

### Summary and rankings for British Columbia, 2000/01

Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	5	1.8
of Business Profits	4	4.3
of Gross Domestic Product	4	0.34
of Corporate Income Tax Revenue	3	41.5
<b>Tax Rate (%)</b>		
Non-Financial	0.30 <sup>a</sup>	
Financial	1.0 / 3.0 <sup>b</sup>	
<b>Tax Revenue (\$millions)</b>	\$438.0	

(a) This tax will be eliminated by September 1st, 2002 (BC Ministry of Finance and Corporate Relations, July 30, 2001).

(b) The lower rate applies to financial institutions with a taxable capital base of less than \$400 million, and the higher for those with a base over \$400 million.

**Figure 7.1: Capital tax as a percent of own-source revenue for British Columbia****Figure 7.3: Capital tax as a percent of GDP for British Columbia****Figure 7.2: Capital tax as a percent of business profits for British Columbia****Figure 7.4: Capital tax as a percent of corporate income tax for British Columbia**

British Columbia has not experienced any improvements in its rankings on any of the four measures of corporate capital tax usage. In other words, its performance relative to other Canadian jurisdictions remains poor. There is, however, hope that British Columbia will improve both its absolute and relative performance in the near future as the new government has announced the elimination of the corporate capital tax for non-financial institutions beginning in September 2002 (BC Ministry of Finance and Corpo-

rate Relations 2001). That said, it is critical for British Columbia's economic recovery that the remaining financial institutions corporate capital tax be eliminated as soon as possible.

Sources: *BC Economic & Fiscal Update* (July 2001); *British Columbia Financial and Economic Reviews*, 1996-2000; *BC Budgets*, 1989-1995; *Corporation Capital Tax Act* 1996; *Manitoba Budgets*, 1989-1994; *Finances of the Nations*, 1995-2000; Milner 1999.

## Alberta

Alberta is the lowest user of corporate capital taxes in Canada as indicated by its across-the-board last place ranking (eleventh). Alberta has consistently been a relatively low user of corporate capital taxes as indicated by both table 8 and figures 8.1 through 8.4. Regardless of which measure of corporate capital tax usage is employed, Alberta's usage rates simply do not compare with most other Canadian jurisdictions.

Alberta first introduced a corporate capital tax on financial institutions in 1990 (table 8 and figures 8.1 to 8.4). The applicable rate was 2.0% on taxable capital of financial institutions (Alberta Finance 1990). Even with the introduction of a financial institutions corporate capital tax, Alberta remained one of the country's lowest users of corporate capital taxes. Alberta is one of only three provinces never to have imposed a non-financial institutions corporate capital tax.

In 1991, the Government of Alberta amended the corporate capital tax legislation to provide small financial institutions with some relief. Specifically, the amendment stated that financial institutions with less than \$100 million in capital could not be assessed corporate capital taxes that exceeded 10% of their accounting income (Robert Vandervelde, personal communication, August 13, 2001).

Although difficult to discern from figures 8.1 to 8.4,<sup>29</sup> Alberta's usage of corporate capital taxes peaks in 1991/92. This increased usage was essentially due to

the recession of the early 1990s. The recession caused business profits to decrease and therefore reduced the amount of corporate income tax payable. Corporate capital taxes are, by nature, insensitive to profit, which means that even though corporate profitability decreases during a recession, the amount of corporate capital tax payable remains relatively stable.

In 1999, Alberta harmonized its financial institutions corporate capital tax base with that of the federal government (*Tax Notes Newsletter*, May 1999). At the same time, the flat 2.0% rate was replaced with a tiered rate system. Financial institutions with less than \$400 million in taxable capital paid 0.7% and those with taxable capital in excess of this amount paid 1% (Robert Vandervelde, personal communication, August 13, 2001). Through harmonization, the Alberta government effectively broadened its corporate capital tax base,<sup>30</sup> which explains why corporate capital tax revenues increased even though the rate was reduced.

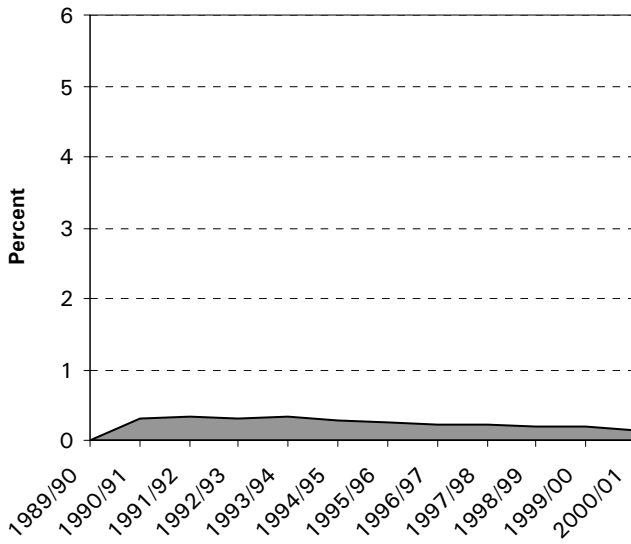
On April 1st, 2001, Alberta eliminated its corporate capital tax (Alberta Finance 2001). The elimination of the financial institutions corporate capital tax in Alberta means that it is now the only Canadian jurisdiction not to levy any type of corporate capital tax. This change places the province in a stronger competitive position to attract new business activity, both internationally and domestically. Alberta's elimination of corporate capital taxes is the model for all other jurisdictions in Canada.

### Summary and rankings for Alberta, 2000/01

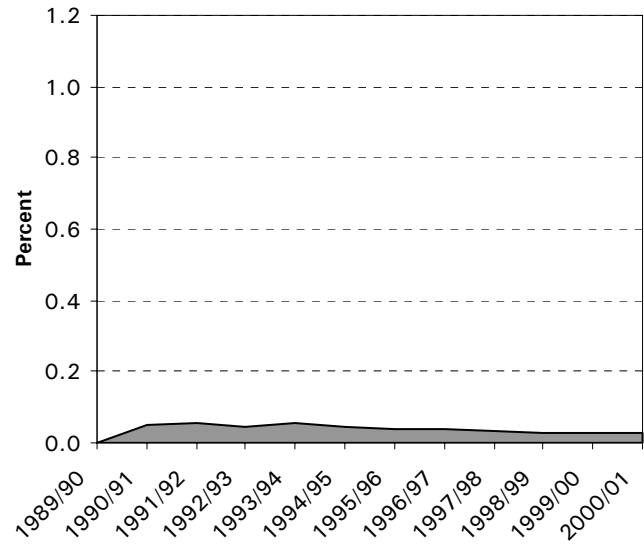
Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	11	0.1
of Business Profits	11	0.1
of Gross Domestic Product	11	0.03
of Corporate Income Tax Revenue	11	1.9
<b>Tax Rate (%)</b>		
Non-Financial	Nil	
Financial	0.7 / 1.0 <sup>a</sup>	
<b>Tax Revenue (\$millions)</b>	<b>\$37.6</b>	

(a) The lower rate applied to financial institutions with less than \$400 million in taxable capital; the high rate to those with greater than \$400 million in taxable capital. A 2.0% rate applied to financial institutions with what is called "non-resident capital."

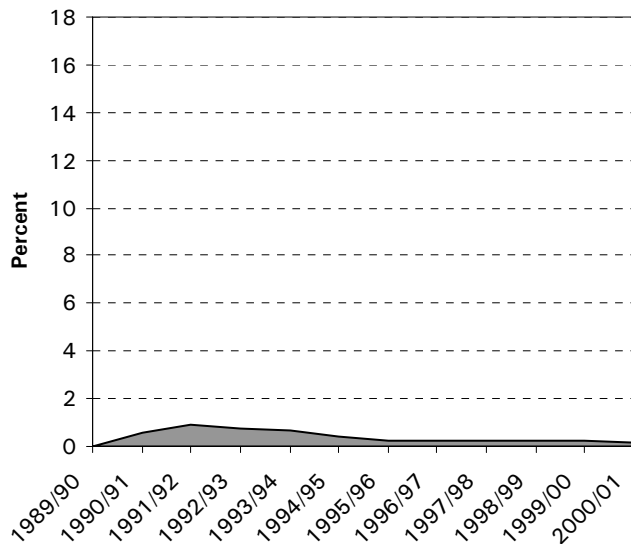
**Figure 8.1: Capital tax as a percent of own-source revenue for Alberta**



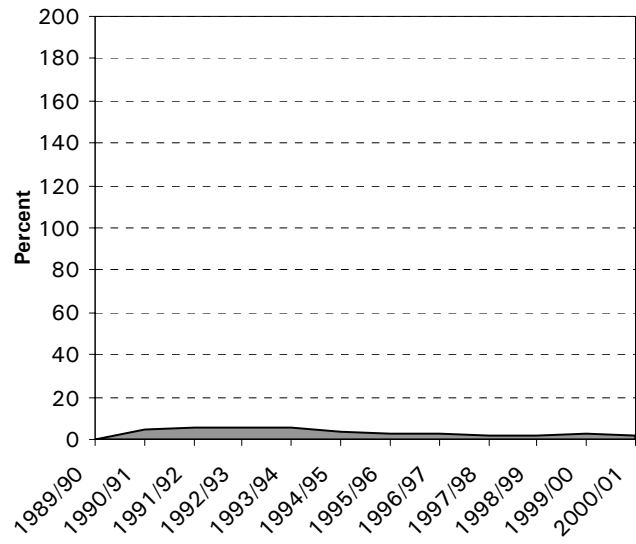
**Figure 8.3: Capital tax as a percent of GDP for Alberta**



**Figure 8.2: Capital tax as a percent of business profits for Alberta**



**Figure 8.4: Capital tax as a percent of corporate income tax for Alberta**



Sources: *Alberta Budgets* 1990, 1998–2001; *Manitoba Budgets* 1989–1994; *Tax Notes Newsletter* (May 1995); Robert Vandervelde, personal communication, August 13, 2001; *Finances of the Nations* 1995–2000; Milner (1999).

## Saskatchewan

Of the 11 Canadian jurisdictions analyzed, Saskatchewan is the greatest single user of corporate capital taxes. Saskatchewan received the highest ranking for three of the four usage indicators: corporate capital tax as a percent of (1) own-source revenue, (2) GDP, and (3) corporate income tax. It ranked second behind Quebec in corporate capital taxes as a percent of business profits.

There are two measures of corporate capital tax usage in which Saskatchewan stands alone: own-source revenue and corporate income tax.

Saskatchewan collects more corporate capital taxes relative to own-source revenue than any other jurisdiction in Canada. In 2000/01, corporate capital tax revenue constituted 5.4% of own-source revenues collected in Saskatchewan. Quebec was ranked second with 3.5% of own-source revenues provided by corporate capital taxes, 35.2% less than Saskatchewan.

Saskatchewan's heavy reliance on corporate capital taxes as a source of government finance is not a recent phenomenon. Saskatchewan has been ranked first on this measure of corporate capital tax usage since 1993/94 and was previously ranked second.

The other indicator in which Saskatchewan's usage of corporate capital taxes is unique is the ratio of corporate capital taxes collected compared to corporate income taxes. Saskatchewan is the only jurisdiction to

consistently collect more corporate capital tax revenue than corporate income tax revenue.<sup>31</sup> In 2000/01, Saskatchewan collected \$1.05 in corporate capital taxes for every \$1.00 collected from corporate income tax. Quebec was ranked second but trailed Saskatchewan significantly. Quebec raised 63¢ in corporate capital tax revenues for every \$1.00 of corporate income tax revenues in 2000/01; Quebec's usage rate is only 60% of Saskatchewan's.

Again, Saskatchewan's high usage of corporate capital taxes, as measured by corporate capital tax as a percent of corporate income tax is not a recent development. Over the 12-year period from 1989/90 to 2000/01, Saskatchewan averaged \$1.21 in corporate capital tax revenues for every \$1.00 of corporate income tax revenue collected.

Further evidence of Saskatchewan's relatively high use of corporate capital taxes is the fact that it assesses some of the highest rates in the country. Also, corporate capital tax revenue has grown by over 165% in real terms since 1989/90, surpassed only by British Columbia, Nova Scotia and New Brunswick. Finally, as indicated in figure 9.1, Saskatchewan is increasingly dependent on corporate capital taxes as a source of revenue.

Saskatchewan has made some important changes to corporate capital tax rates. In 1992, the corporate capital tax rate on financial institutions was in-

### Summary and rankings for Saskatchewan, 2000/01

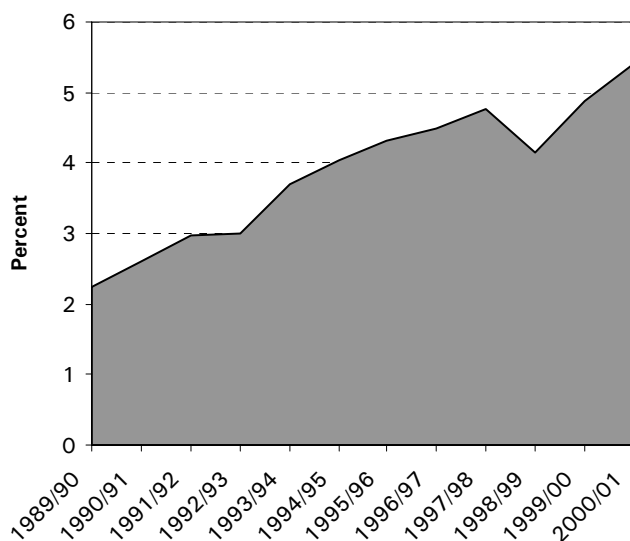
Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	1	5.4
of Business Profits	2	6.1
of Gross Domestic Product	1	0.98
of Corporate Income Tax Revenue	1	104.8
<b>Tax Rate (%)</b>		
Non-Financial	0.60 <sup>a</sup>	
Financial	0.7 / 3.25 <sup>b</sup>	
<b>Tax Revenue (\$millions)</b>	\$329.2	

(a) The first \$15 million in taxable capital is deductible. This means that firms with less than this amount of taxable capital are exempt from the tax.

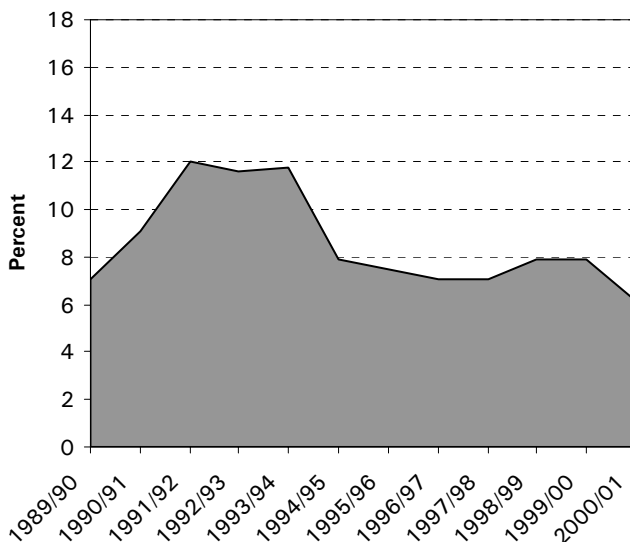
(b) The lower rate applies to financial institutions with taxable capital of less than \$400 million, and the higher for those with taxable capital over \$400 million. In addition, resource companies are subject to a 3.6% surcharge on the difference between total sales and the corporate capital tax liability.



**Capital Tax as a percent of own-source revenue for Saskatchewan**

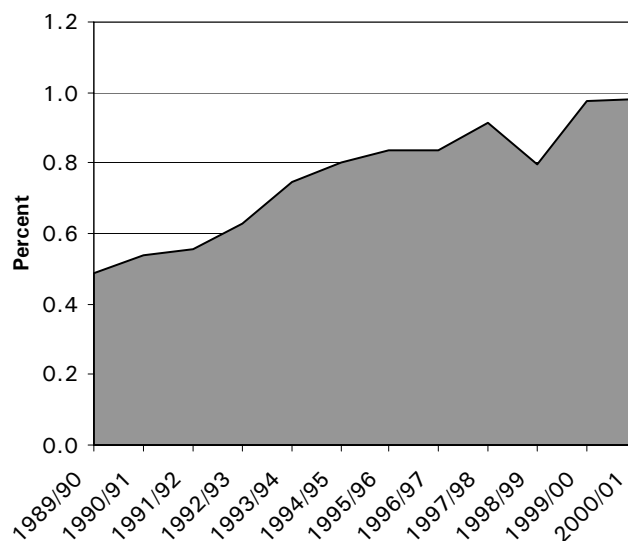


**Figure 9.2: Capital tax as a percent of business profits for Saskatchewan**

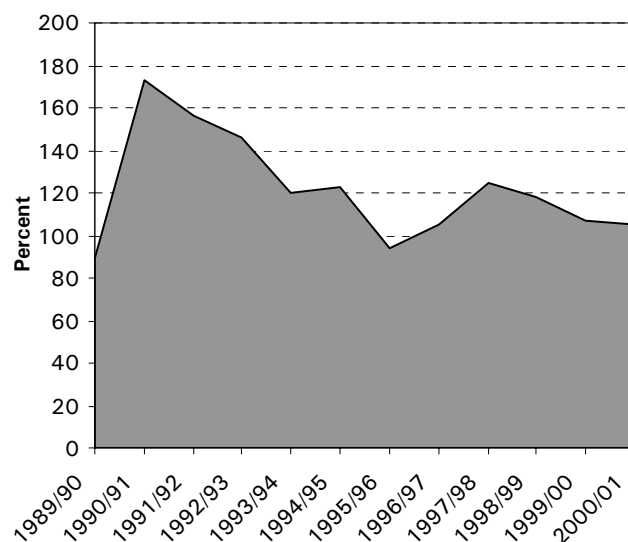


creased from 3.0% to 3.25% and the resource surcharge was increased from 2.0% to 3.0% (Saskatchewan Finance 1992). In the following year, the surcharge was increased by another 0.6 percentage points (Saskatchewan Finance 1993). The result of these changes, as can be seen in figures 9.1 through 9.4, was a dramatic increase in corporate capital tax usage. The 139.2% increase in corporate capital tax as a percent of own-source revenues over the reference period can be at least partially attributed to these changes. It recently increased the deduction from \$10 million to \$15 million.

**Figure 9.3: Capital Tax as a Percent of GDP for Saskatchewan**



**Figure 9.4: Capital tax as a percent of corporate income tax for Saskatchewan**



There can be little doubt, given Saskatchewan's performance in all four measures of corporate capital tax usage, that it has the most damaging corporate capital tax regime in Canada. The high cost of using corporate capital taxes, as discussed in section 2 of this study should make the elimination of corporate capital taxes a high priority for Saskatchewan.

Sources: *Saskatchewan Budgets*, 1989–1994; 1999–2001; *Manitoba Budgets* 1989–1994; Corporation Capital Tax Web site 2001; *Finances of the Nations* 1995–2000; Milner 1999.

## Manitoba

Manitoba is generally a high user of corporate capital taxes in Canada. It ranked third in two measures of corporate capital tax usage and fourth in the remaining two measures for 2000/01. These rankings (third and fourth) are typical across the period from 1989/90 to 2000/01 that was examined.

The revenues collected by Manitoba from corporate capital taxes have been relatively stable over the period examined. In real terms, corporate capital tax revenue increased 46.7% from \$92 million in 1989/90 to \$135 million in 2000/01. The stability of corporate capital taxes in Manitoba is further illustrated in figures 10.1 through 10.4. In fact, of all the jurisdictions examined, Manitoba has one of the most stable performances, albeit at a rather high level of usage.

Very few changes have been made to the structure of the Manitoban corporate capital tax system over the period examined. In fact, the only important set of changes occurred between 1994 and 1998 when the taxable capital exemption was raised from \$1 million to \$5 million (Manitoba Finance 1994–1998). These exemption increases reduced corporate capital tax revenue only marginally and did not cause any ranking changes.

By 1995, after the exemption changes, the amount of corporate capital tax usage actually increased. This was caused by the elimination of the corporate capital

tax exemption afforded Manitoba Hydro and Manitoba Telephone Systems in the 1994 Budget. This change increased corporate capital tax revenue by approximately \$15 million.

The amount of corporate capital tax as a percentage of corporate income tax and business profits were at their highest between 1990/91 and 1993/94. Undoubtedly, the cause for this was the recession that plagued the Canadian economy. Companies earned less business profit so the amount of corporate income tax payable was much lower. Corporate capital tax revenues remained stable throughout the recession because the corporate capital tax base is not affected by short-term fluctuations in business profits. Less business profits and lower corporate income tax revenue coupled with a stable corporate capital tax revenue flow resulted in both ratios being high throughout the recession.

Manitoba's usage of corporate capital tax has remained steady and moderately high over the period. Manitoba's relatively high use of corporate capital taxes coupled with the high cost of such taxes to the economy mean that the elimination of corporate capital taxes must be a key objective for the provincial government over the near term.

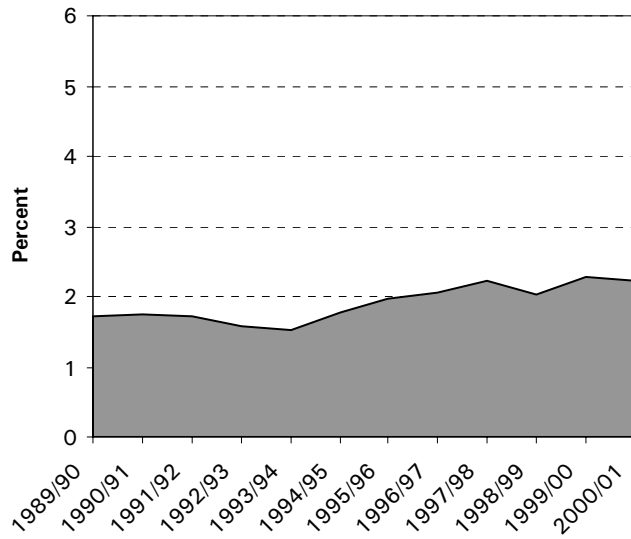
Sources: *The Manitoba Budget* (1989–2001); *Finances of the Nations* 1995–2000; Milner 1999.

### Summary and rankings for Manitoba, 2000/01

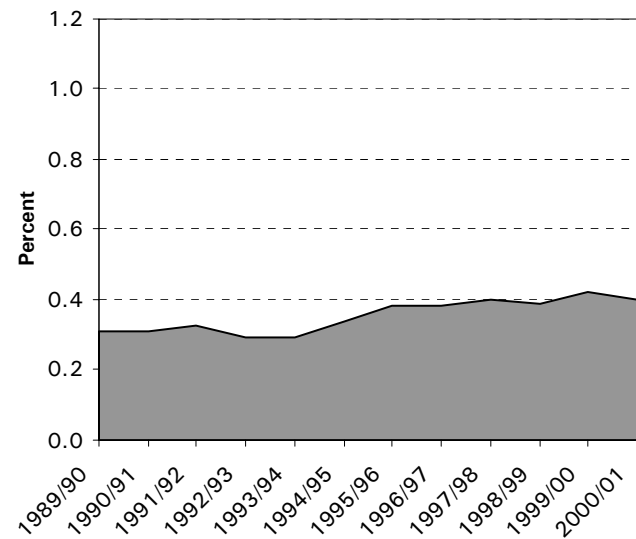
Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	4	2.2
of Business Profits	3	5.1
of Gross Domestic Product	3	0.40
of Corporate Income Tax Revenue	4	40.4
<b>Tax Rate (%)</b>		
Non-Financial	0.3 / 0.5 <sup>a</sup>	
Financial	3.00	
<b>Tax Revenue (\$millions)</b>	<b>\$135.1</b>	

(a) The lower rate applies to those corporations with total taxable capital between \$5 and \$10 million. The higher rate includes a surcharge of 0.2 percentage points on corporations with taxable capital of over \$10 million.

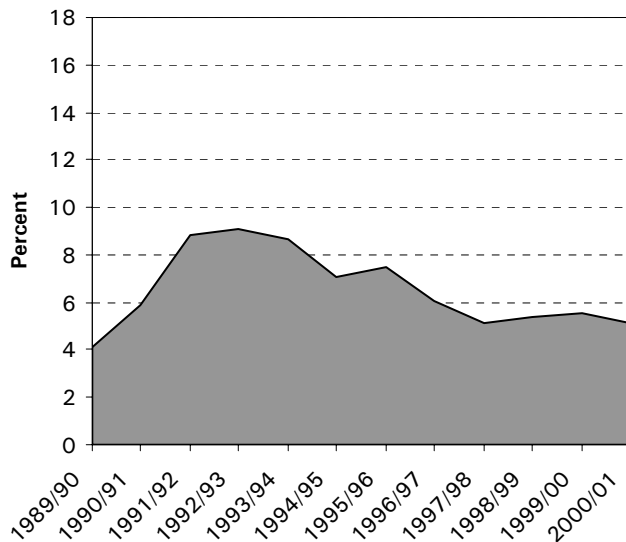
**Figure 10.1: Capital tax as a percent of own-source revenue for Manitoba**



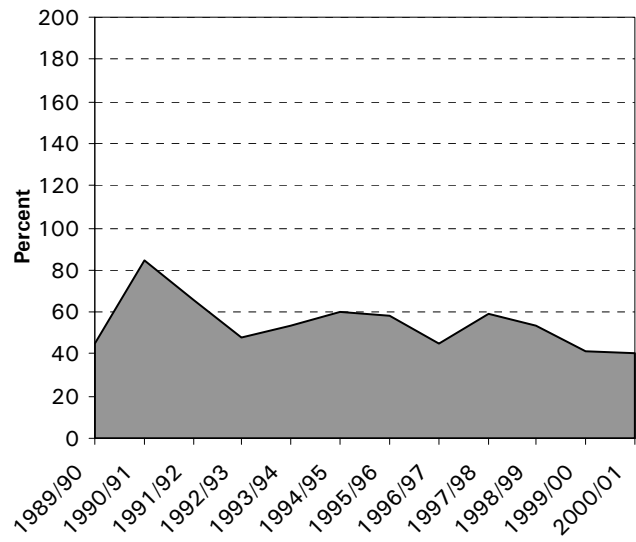
**Figure 10.3: Capital tax as a percent of GDP for Manitoba**



**Figure 10.2: Capital tax as a percent of business profits for Manitoba**



**Figure 10.4: Capital tax as a percent of corporate income tax for Manitoba**



## Ontario

Ontario's performance in the usage indicators for corporate capital taxes is mixed. Overall, Ontario is in the middle of Canadian jurisdictions in terms of corporate capital tax usage both for the current year and over the period from 1989/90 to 2000/01 that was examined in this study.

For 2000/01, Ontario is in the middle of Canadian jurisdictions for corporate capital taxes as a percent of corporate income tax revenues. Ontario ranked fifth for corporate capital tax as a percent of GDP and as a percent of business profits, one spot away from the mid-point. It is corporate capital tax as a percent of own-source revenue where Ontario ranks well above the mid-point. Ontario ranked third in 2000/01 with 2.3% of its own-source revenues provided by corporate capital taxes. Overall, however, for the fiscal year 2000/01, Ontario's usage of corporate capital taxes placed it in the middle of Canadian jurisdictions.

Ontario has actually achieved a slight improvement in its relative performance over the 12-year period examined. In three of the four indicators of corporate capital tax usage, Ontario has experienced improvement in its rankings. In general, Ontario began the period with a ranking of fourth for corporate capital tax as a percent of: business profits, GDP, and corporate income tax. It has improved, as indicated by a lower ranking in all three indicators, falling to between fifth and seventh position depending on the measure (see tables 4 through 7). Ontario's corporate capital tax usage as measured by its rank in the percent of own-source rev-

enues provided by corporate capital taxes remained relatively stable over the period.

Ontario's corporate capital tax revenues, although a minor source of revenue for the province, place Ontario in third position for its reliance on corporate capital taxes as a percent of own-source revenue. In 2000/01, Ontario collected an historic high of \$1.4 billion in corporate capital tax revenues (2.3% of own-source revenues). Figure 11.1 shows that corporate capital tax as a percent of own-source revenues increased by some 17% over the reference period.

As in most Canadian jurisdictions, some changes were made to the corporate capital tax structure over the period of study. In 1992, the financial institution corporate capital tax rate was increased from 0.80% to 1.0%. Also, a temporary 10.0% surcharge was levied on financial institutions.

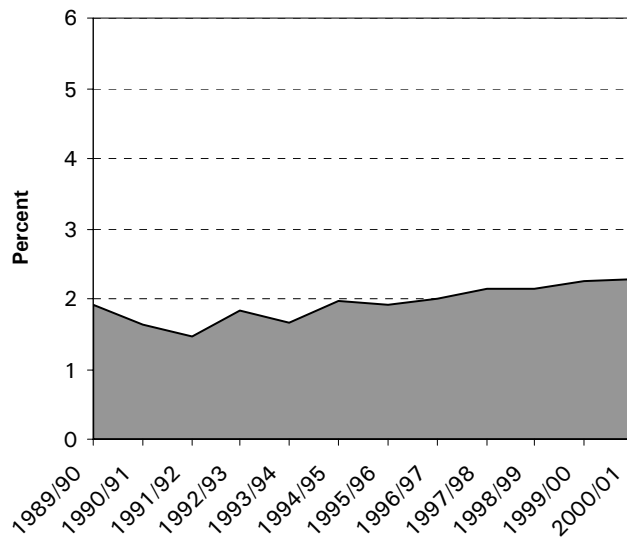
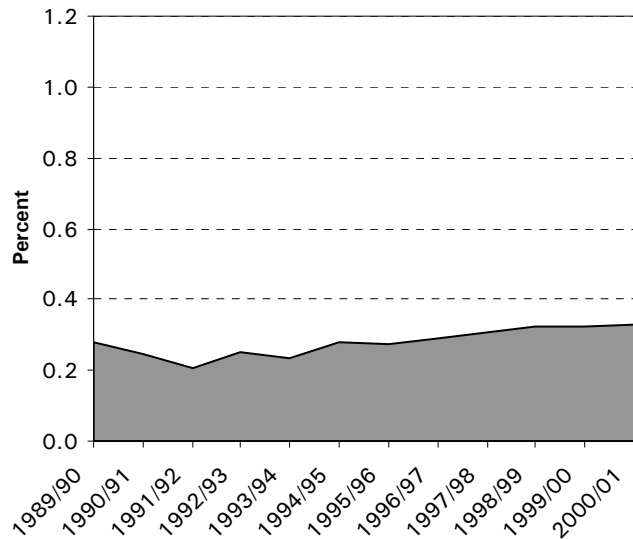
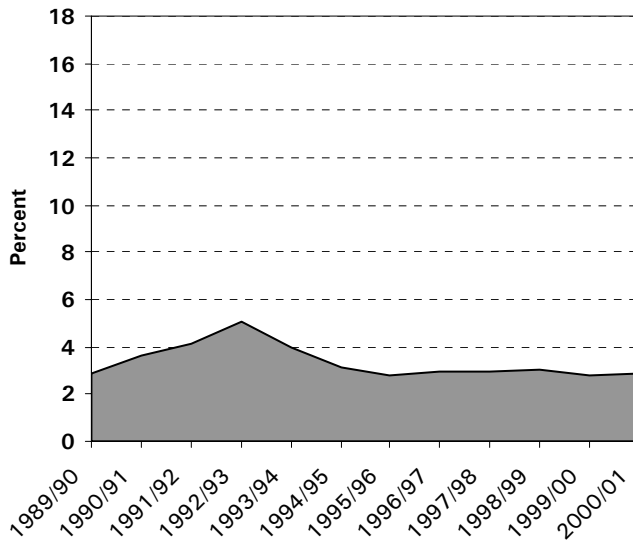
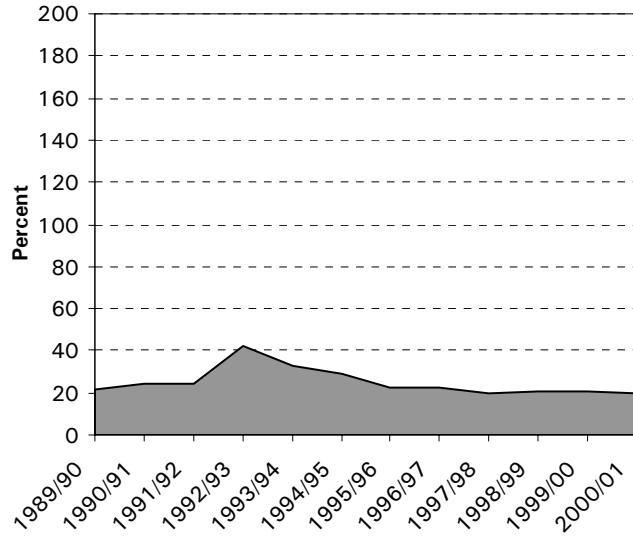
In 1997, the financial institutions corporate capital tax base was harmonized with that of the federal government. In addition, Ontario reduced the financial institutions corporate capital tax rate by introducing a variable or tiered schedule. The rate decrease was offset by the adoption of the larger, broader federal corporate capital tax base. These changes resulted in an increase in the amount of corporate capital tax revenue.

Ontario is an industrious province whose corporate capital tax base has been growing in recent years due to increases in business activity. This explains why

### Summary and rankings for Ontario, 2000/01

Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	3	2.3
of Business Profits	5	2.9
of Gross Domestic Product	5	0.33
of Corporate Income Tax Revenue	6	19.8
<b>Tax Rate (%)</b>		
Non-Financial	0.3	
Financial	0.6 / 0.9 <sup>a</sup>	
<b>Tax Revenue (\$millions)</b>	\$1,406.1	

(a) The rate of tax is 0.6% on the first \$400 million of taxable capital and 0.9% on taxable capital over \$400 million. Other rates are applied for different types of financial institutions. A capital tax surcharge is also applicable to some financial institutions.

**Figure 11.1: Capital tax as a percent of own-source revenue for Ontario****Figure 11.3: Capital tax as a percent of GDP for Ontario****Figure 11.2: Capital tax as a percent of business profits for Ontario****Figure 11.4: Capital tax as a percent of corporate income tax for Ontario**

the amount of corporate capital tax revenue has grown without any significant structural changes.

Even though Ontario is generally seen as a moderate user of corporate capital taxes within Canada, it is nonetheless important for the province to eliminate its usage of both the financial and non-financial corporate capital tax due to both their high economic cost and the fact that few, if any of Ontario's international competi-

tors use such a tax. The elimination of the corporate capital tax in Ontario should be a high priority.

Sources: *Corporations Tax & Annual Return* (2001); *Capital Tax Harmonization for Financial Institutions*, in *1997 Budget Update* 1997; *Guide to the 2001 CT23 Corporation Tax & Annual Return* 2001; *Ontario Budget 1989–2000*; *Corporate Minimum Tax Working Group Report* 1992; *Finances of the Nations 1995–2000*; Milner 1999.

## Quebec

Quebec, behind only Saskatchewan, is a leading Canadian jurisdiction in its use of corporate capital taxes. Its high corporate capital tax rates combined with the largest corporate capital tax base among the provinces result in Quebec's high ranks on the usage of corporate capital tax measures. In 2000/01, Quebec raised a record \$1.6 billion in corporate capital taxes, more than any other jurisdiction including the federal government.

Quebec ranked second in corporate capital tax usage in three of the four indicators in 2000/01: corporate capital tax as a percent of (1) own-source revenue, (2) GDP, and (3) corporate income tax. It ranked first, ahead of Saskatchewan, in the percentage of business profits consumed by corporate capital taxes. Quebec's relatively high use of corporate capital taxes is not a recent phenomenon. Quebec was consistently ranked first or second in all four usage indicators throughout the 12-year time period examined.

Figures 12.1 through 12.4 illustrate Quebec's use of corporate capital taxes over the last 12 years. Quebec has seen a small decline in the percentage of own-source revenues provided by corporate capital taxes since peaking at nearly 4.0% in 1996/97—it is currently at 3.5%. This downward trend has much more to do with faster growing revenues from other sources than a decline in corporate capital tax usage. Similarly, the decline in corporate capital taxes relative to business profits is a result of greater business profitability as opposed to lower corporate capital tax usage.

The most telling indicator of Quebec's increased use of corporate capital taxes is contained in figure 12.3.

Corporate capital taxes as a percent of GDP have increased by 17.7% since 1989/90. And, although corporate capital taxes relative to the amount of corporate income tax collected has declined significantly since peaking at 118.8% in 1990/91, this decline, like others, has more to do with greater corporate profitability than with a dissipation of corporate capital tax usage.

There have been numerous changes to Quebec's corporate capital tax regime over the period of study. For instance, Quebec increased the business surtax from 7.25% to 12.0%. The increase meant that the non-financial and financial institutions corporate capital tax rates increased from 0.48% to 0.50%, and from 0.97% to 1.01%, respectively.

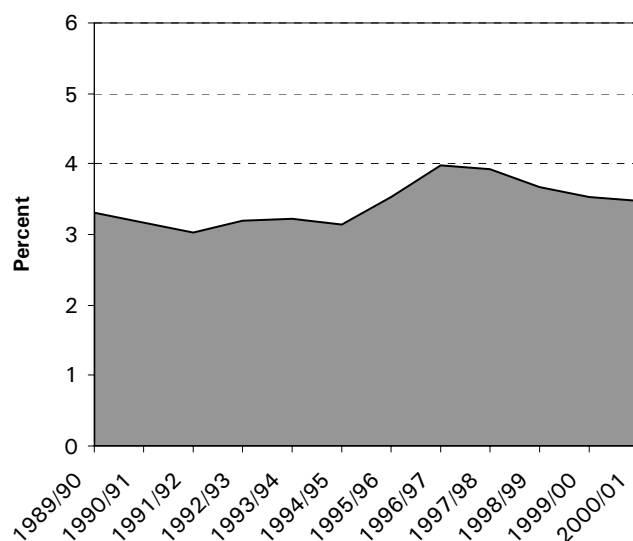
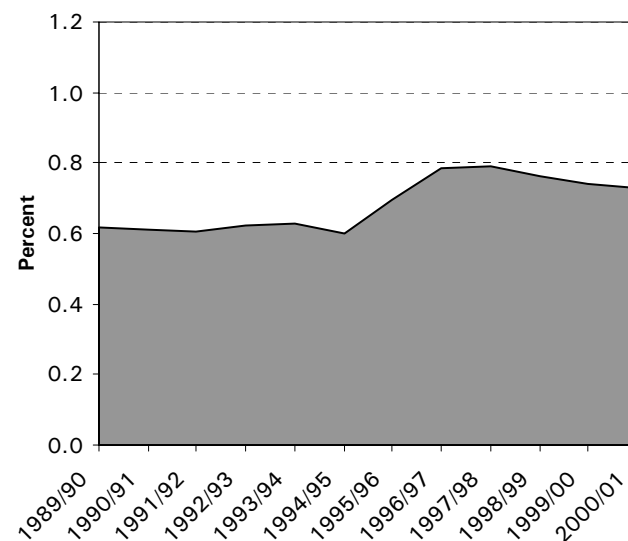
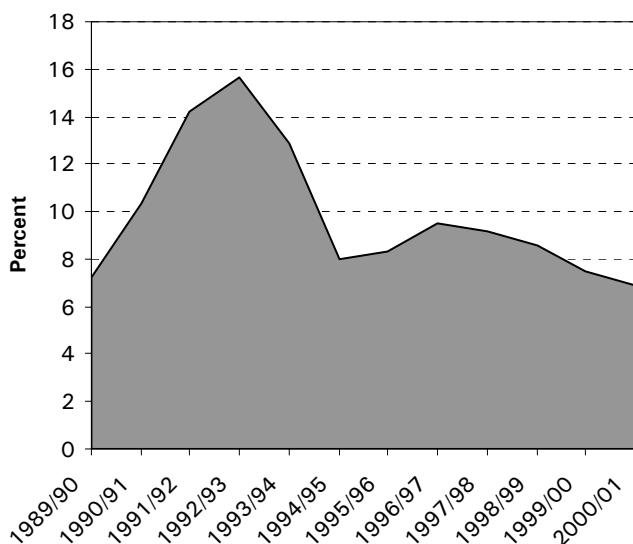
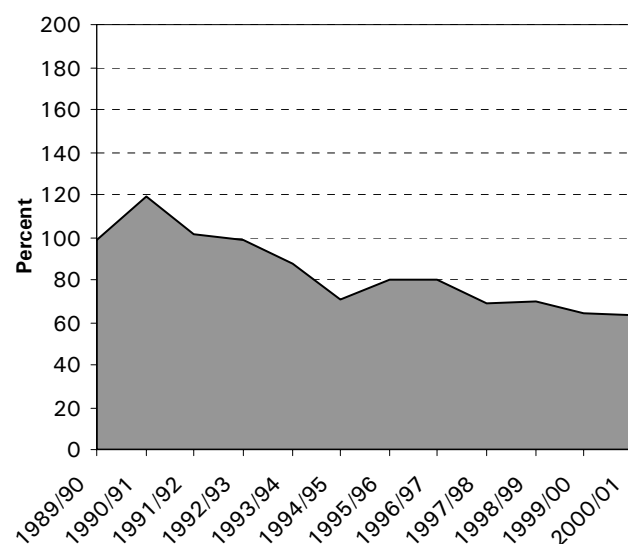
The surtax was again increased to 15% in 1990 and then eliminated in 1991. Interestingly, the elimination of the surtax did not reduce the amount of corporate capital tax revenue collected. The reason is that the effective rate generated by the surtax in 1990 was legislated to be the new statutory rate. The surtax was effectively buried in the new tax rate.

In the 1995 budget, a number of changes were enacted to the corporate capital tax that resulted in increased revenues. Most of the revenue increase was due to the corporate capital tax base broadening and rate increases.

The 1995 budget not only reconfigured the base but also increased the corporate capital tax rates. The non-financial and financial institutions corporate capital tax rates were increased from 0.56% to 0.64% and from 1.12% to 1.28%, respectively.

### Summary and rankings for Quebec, 2000/01

Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	2	3.5
of Business Profits	1	6.9
of Gross Domestic Product	2	0.73
of Corporate Income Tax Revenue	2	63.4
<b>Tax Rate (%)</b>		
Non-Financial	0.64	
Financial	1.51	
<b>Tax Revenue (\$millions)</b>	<b>\$1,625.9</b>	

**Figure 12.1: Capital Tax as a percent of own-source revenue for Quebec****Figure 12.3: Capital tax as a percent of GDP for Quebec****Figure 12.2: Capital tax as a percent of business profits for Quebec****Figure 12.4: Capital tax as a percent of corporate income tax for Quebec**

Beginning in 1997, the Quebec government levied an additional surtax of 3.0% on the statutory financial institutions corporate capital tax rate (KPMG 1998: 16).

The financial institutions corporate capital tax rate was recently reduced from a high of 1.57% in 1999 to 1.55 for 2000 (Treff and Perry 2000). There has been no parallel change in the non-financial corporate capital tax rate, although the Quebec government recently committed to decreasing the non-financial corporate capital tax rate to 0.3% by 2007 (Ministère des Finances 2001).

Quebec's only corporate capital tax rival in Canada is Saskatchewan. Both provinces should undertake actions leading to the elimination of corporate capital taxes, due to the high economic cost imposed by corporate capital taxes.

Sources: *Quebec Budgets 1997–2001*; *Budget Speech and Additional Information 1989–1997*; *Manitoba Budget 1989–1994*; *Information Bulletins, 1983–1996* 1996; *Finances of the Nations 1995–2000*; Milner 1999.

## New Brunswick

New Brunswick ranks in the middle of Canadian jurisdictions in terms of its use of corporate capital taxes and very much mirrors the experience of neighbouring province, Nova Scotia. New Brunswick was ranked seventh in all four usage measurements for 2000/01.

As indicated in figures 13.1 through 13.4, the amount of corporate capital tax collected (regardless of the measure) in New Brunswick between 1989/90 and 1996/97 was relatively stable. While some other provinces, most notably British Columbia, substantially increased their use of corporate capital taxes, New Brunswick avoided such costly changes in tax policy over this period.

Unfortunately for New Brunswick, a major change in corporate capital tax usage occurred in 1997. New Brunswick introduced a new corporate capital tax on non-financial institutions with a rate of 0.3%. This new tax utilized the federal government's large corporations tax base, which is one of the widest and deepest bases in the country.

As illustrated in figures 13.1 through 13.4, this change resulted in a dramatic increase in corporate capital tax usage. Between 1996/97 and 1997/98, real corporate capital tax revenues increased 300.0%, from \$9 million to \$36 million. The percent of own-source revenues provided by corporate capital taxes leapt from 0.25% in 1996/97 to 1.07% in 1997/98. Similarly, the percent-

age of business profits consumed by corporate capital taxes increased from 0.62% to 2.79%. More dramatically, the percentage of corporate capital tax revenues compared to corporate income tax revenues increased from 3.5% to 16.7%. Finally, corporate capital taxes as a percentage of GDP increased 300%, from 0.05% to 0.20%.

Not surprisingly, the introduction of a non-financial corporate capital tax and the resulting leap in corporate capital tax revenues resulted in a deterioration in New Brunswick's usage rankings. New Brunswick has experienced a marked decline in its ranking performance over the last four years. It has consistently been ranked seventh for the last three years but was among the lowest users among Canadian jurisdictions prior to 1997/98. In fact, prior to 1997/98, New Brunswick achieved rankings of ninth and tenth in all four-usage indicators.

Although New Brunswick is in the middle of the pack of Canadian jurisdictions in its use of corporate capital taxes, it should nonetheless aim to eliminate both its financial and non-financial corporate capital tax due to the high economic costs associated with raising revenues in this manner.

Sources: *New Brunswick Budgets 1999–2001*; *Financial Corporation Tax Return 2001*; *Finances of the Nations 1995–2000*; Milner 1999.

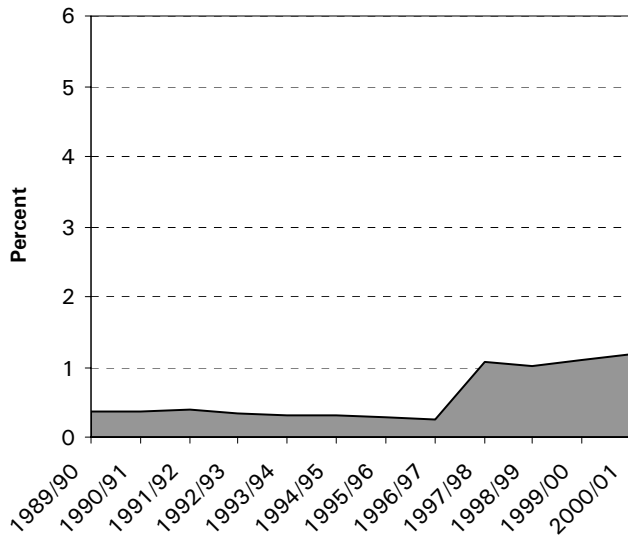
### Summary and rankings for New Brunswick, 2000/01

Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	7	1.2
of Business Profits	7	2.7
of Gross Domestic Product	7	0.21
of Corporate Income Tax Revenue	7	23.2
<b>Tax Rate (%)</b>		
Non-Financial	0.30 <sup>a</sup>	
Financial	3.00	
<b>Tax Revenue (\$millions)</b>	<b>\$41.3</b>	

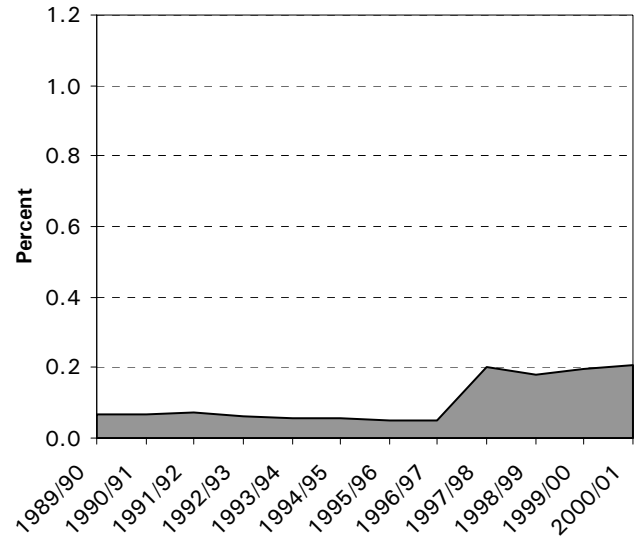
(a) A \$5 million deduction is allowed.



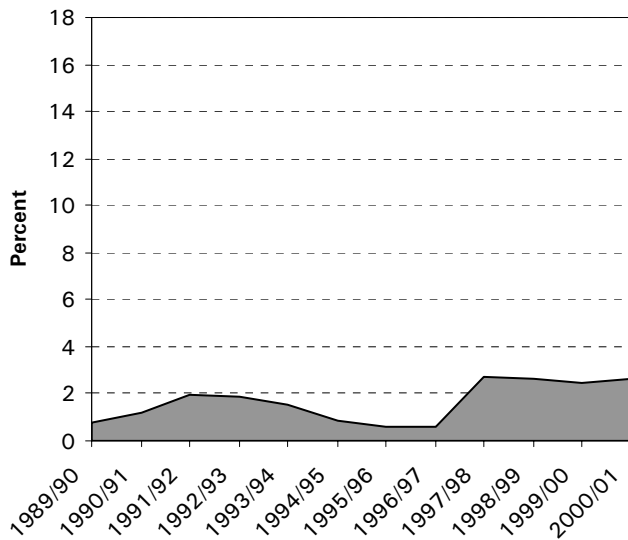
**Figure 13.1: Capital tax as a percent of own-source revenue for New Brunswick**



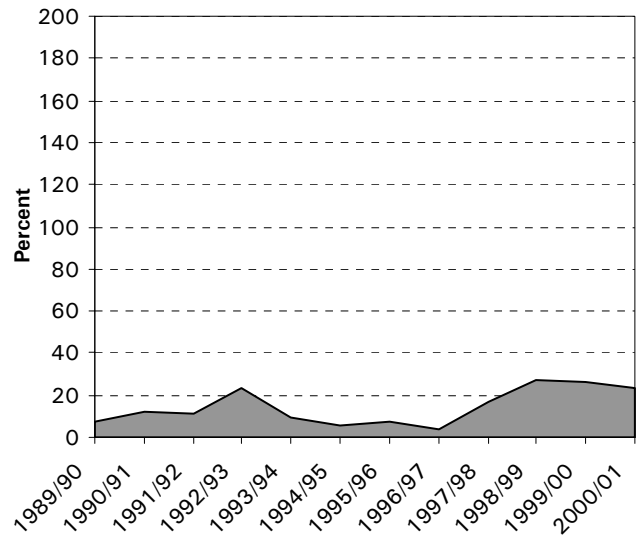
**Figure 13.3: Capital tax as a percent of GDP for New Brunswick**



**Figure 13.2: Capital tax as a percent of business profits for new Brunswick**



**Figure 13.4: Capital tax as a percent of corporate income tax for New Brunswick**



## Nova Scotia

Nova Scotia, like its neighbouring province, New Brunswick, ranks in the middle of Canadian jurisdictions in terms of its use of corporate capital taxes. In fact, it actually is the middle-ranked jurisdiction for corporate capital tax as a percent of own-source revenue, as a percent of business profits, and as a percent of corporate income tax. Nova Scotia ranked sixth on these three measures of capital usage and fifth on the remaining measures: corporate capital tax as a percent of GDP.

Nova Scotia's experience with corporate capital taxes mirrors that of New Brunswick. Like New Brunswick, Nova Scotia's collection of corporate capital taxes was relatively stable between 1989/90 and 1996/97 (see figures 14.1 through 14.4). While other provinces, most notably British Columbia, substantially increased their use of corporate capital taxes, Nova Scotia did not.

Prior to 1996/97, Nova Scotia's only corporate capital tax was assessed on financial institutions. The corporate capital tax rate was 3.0%, the same as in New Brunswick.

In 1997, Nova Scotia, like New Brunswick, introduced a new corporate capital tax for non-financial corporations. The new corporate capital tax rate was 0.3%. The new tax utilized the federal government's large corporations tax base, which is one of the widest and deepest bases in the country.

The change resulted in a substantial increase in corporate capital tax usage. For instance, between 1996/97 and 1997/98, real corporate capital tax revenue increased from \$15.2 million to slightly more than \$50.0 million, representing an increase of over 233%.

Further, as can be seen in figures 14.1 to 14.4, all corporate capital tax usage indicators increased dramatically after the introduction of this new tax. Corporate capital taxes increased from 0.44% of own-source revenues in 1996/97 to 1.46% in 1997/98. The percent of business profits consumed by corporate capital taxes similarly increased from 1.12% in 1996/97 to 3.66% in 1997/98. Corporate capital taxes as a percent of corporate income taxes ballooned from 10.0% in 1996/97 to over 34.0% in 1997/98. Finally, corporate capital taxes as a percent of GDP increased from 0.07% in 1996/97 to 0.23% in 1997/98, an increase of 228.6%.

Not surprisingly, the introduction of a non-financial corporate capital tax and the resulting leap in corporate capital tax revenues resulted in a deterioration in Nova Scotia's usage rankings. Nova Scotia experienced an across-the-board decline in its ranking performance over the last four years and is now firmly placed in fifth or sixth position, depending on the specific measure employed.

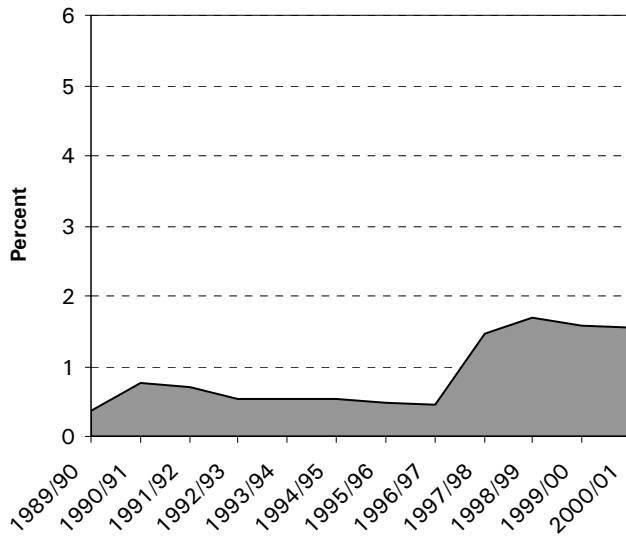
Although Nova Scotia is in the middle of the pack of Canadian jurisdictions in its use of corporate capital

### Summary and rankings for Nova Scotia, 2000/01

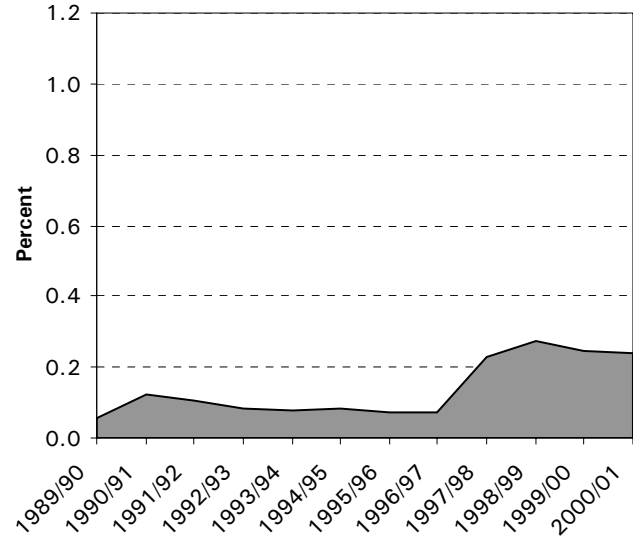
Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	6	1.6
of Business Profits	6	2.8
of Gross Domestic Product	6	0.24
of Corporate Income Tax Revenue	5	34.0
<b>Tax Rate (%)</b>		
Non-Financial	0.25 / 0.50 <sup>a</sup>	
Financial	3.00	
<b>Tax Revenue (\$millions)</b>	<b>\$57.9</b>	

(a) If a corporation has taxable capital of \$5 million to \$10 million, it is entitled to a \$5 million dollar deduction but is taxed at the higher rate. A corporation with over \$10 million in taxable capital is not eligible for the deduction but is taxed at the lower rate. A corporation with taxable capital of less than \$5 million is exempt from taxation.

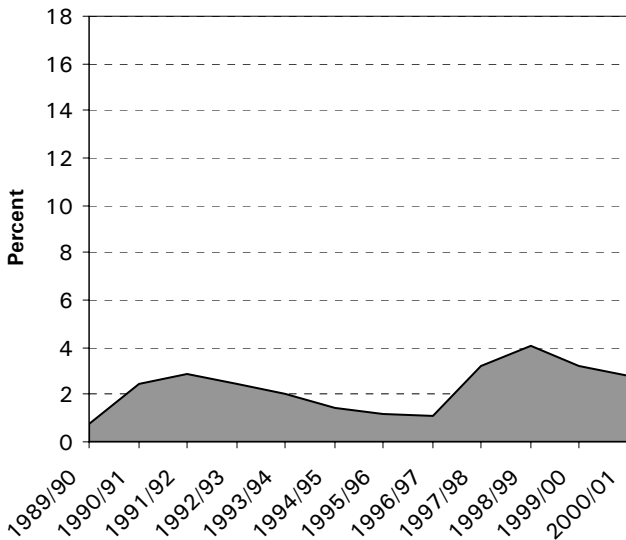
**Figure 14.1: Capital tax as a percent of own-source revenue for Nova Scotia**



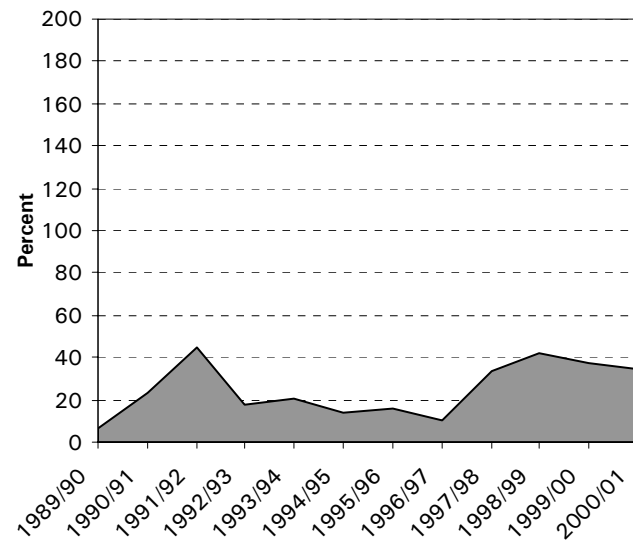
**Figure 14.3: Capital tax as a percent of GDP for Nova Scotia**



**Figure 14.2: Capital tax as a percent of business profits for Nova Scotia**



**Figure 14.4: Capital tax as a percent of corporate income tax for Nova Scotia**



taxes, it should nonetheless aim to eliminate both its financial and non-financial corporate capital tax due to the high economic costs associated with raising revenues in this manner.

Sources: *Nova Scotia Budget Documents, 1995–2001*; *Manitoba Budgets 1989–1994*; *Finances of the Nations 1995–2000*; Milner 1999.

## Prince Edward Island

Prince Edward Island is one of Canada's lowest users of corporate capital taxes. In 2000/01, it ranked ninth in two of the four measurement categories. It received a rank of tenth position for the other two indicators. Recall that high rankings indicate low usage of corporate capital taxes.

Figures 15.1 through 15.4 indicate a relatively stable corporate capital tax environment. Prince Edward Island does not have a non-financial or general corporate capital tax. It only imposes a corporate capital tax on financial institutions.

The only change to Prince Edward Island's corporate capital tax rate or base occurred in 1990 when the rate was increased from 2.5% to 3.0%. This change increased revenues by \$0.4 million.

Although Prince Edward Island's corporate capital tax rate on financial institutions is relatively high, the

number of taxable institutions is small, which explains why it has never collected very much corporate capital tax revenue.

Prince Edward Island is in a good position to become the only province other than Alberta to eliminate corporate capital taxes. This would not create a difficult financial situation for the province since corporate capital taxes only account for 0.3% of total own-source revenues. Further, given the highly distortionary nature of corporate capital taxes and their resulting high economic costs, Prince Edward Island, like all Canadian jurisdictions would be well served to completely eliminate the corporate capital tax.

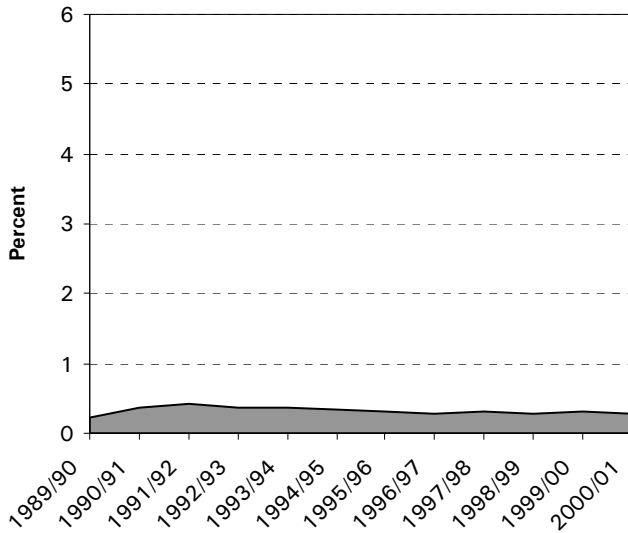
Sources: *Prince Edward Island Budgets 1998–2001*; *Manitoba Budgets 1989–1994*; *Financial Corporation Capital Tax Act 2000*; *Financial Corporation Capital Tax Return 2001*; *Finances of the Nations 1995–2000*; Milner 1999.

### Summary and rankings for Prince Edward Island, 2000/01

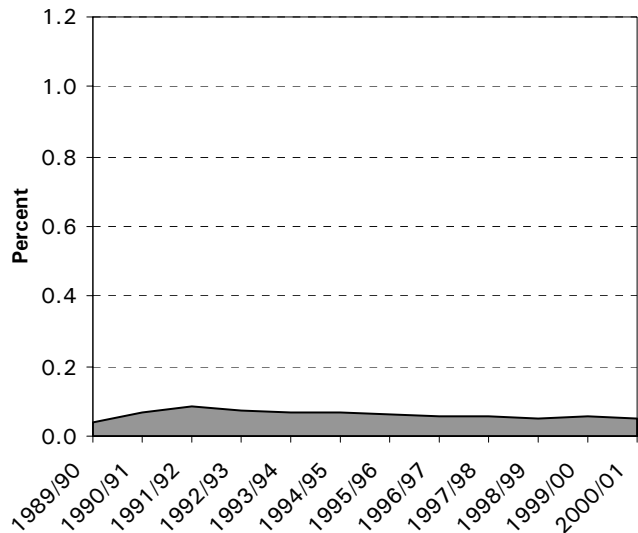
Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	10	0.3
of Business Profits	9	0.4
of Gross Domestic Product	10	0.5
of Corporate Income Tax Revenue	9	4.4
<b>Tax Rate (%)</b>		
Non-Financial	Nil	
Financial	3.00 <sup>a</sup>	
<b>Tax Revenue (\$millions)</b>	<b>\$1.7</b>	

(a) \$2 million deduction is provided.

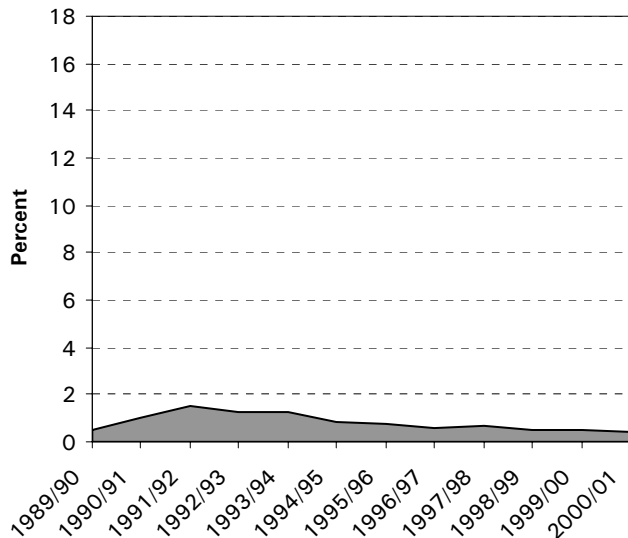
**Figure 15.1: Capital tax as a percent of own-source revenue for Prince Edward Island**



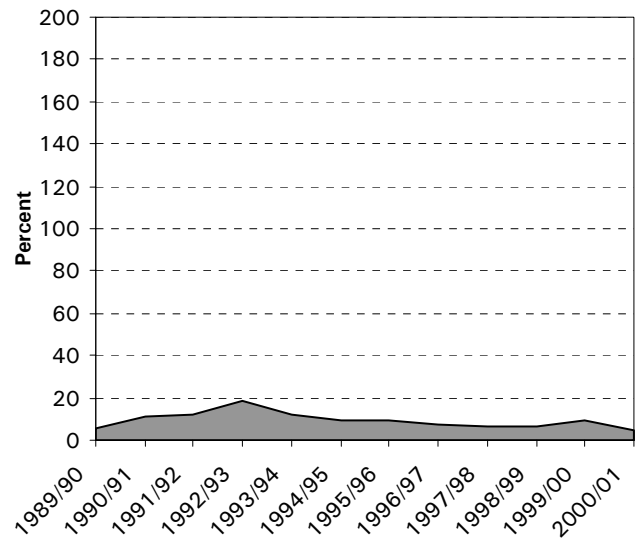
**Figure 15.3: Capital tax as a percent of GDP for Prince Edward Island**



**Figure 15.2: Capital tax as a percent of business profits for Prince Edward Island**



**Figure 15.4: Capital tax as a percent of corporate income tax for Prince Edward Island**



## Newfoundland

Newfoundland, like its Atlantic neighbour Prince Edward Island, is one of Canada's lowest users of corporate capital taxes. Newfoundland placed in ninth position in two of the performance indicators while placing eighth and tenth in the other two measures of corporate capital tax usage. All four indicators illustrate Newfoundland's low reliance on, and low use of, corporate capital taxes.

Like Prince Edward Island, Newfoundland only imposes a corporate capital tax on financial institutions, although at a higher rate than Prince Edward Island (4.0 versus 3.0%). Newfoundland actually used to have the same rate as Prince Edward Island. However, in 1998, it increased its corporate capital tax rate from 3.0% to 4.0%. Although this is the highest tax rate imposed on the capital of financial institutions in Canada, Newfoundland still ranks very low in terms of corporate capital tax usage and revenue collection.

The reason for this is that the amount of taxable capital in financial institutions located in Newfoundland is limited, so Newfoundland's ability to collect corporate capital tax revenue is also limited.

Newfoundland, like Prince Edward Island, is in a good position to become the only province other than Alberta to eliminate corporate capital taxes. This would not create a difficult financial situation for the province since corporate capital taxes only account for 0.3% of total own-source revenues. Further, given the highly distortionary nature of corporate capital taxes and their resulting high economic costs, Newfoundland would be well served to completely eliminate its corporate capital tax.

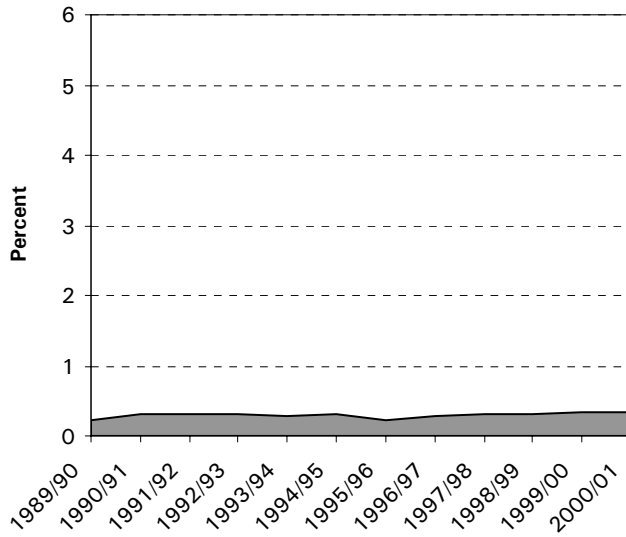
Sources: *Newfoundland Budgets* 1995–2001; *Manitoba Budgets* 1989–1994; *Financial Corporation Capital Tax Act* 2000; *Finances of the Nations* 1995–2000; Milner 1999.

### Summary and rankings for Newfoundland, 2000/01

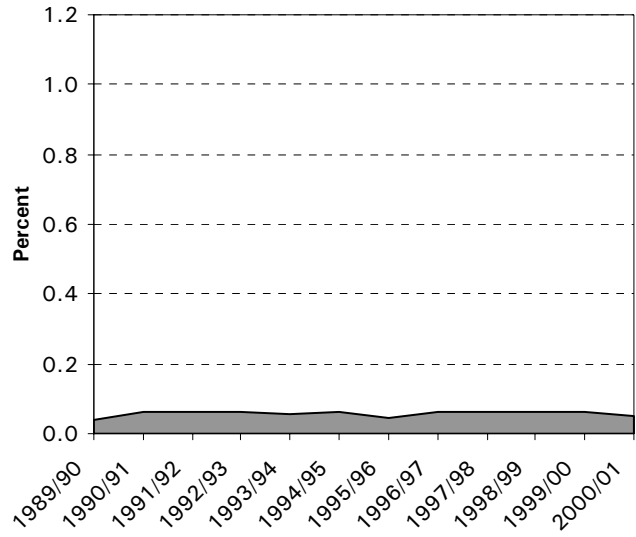
Corporate Capital Tax Revenue as a Percentage	Rank	(%)
of Own-Source Revenue	9	0.3
of Business Profits	10	0.3
of Gross Domestic Product	9	0.05
of Corporate Income Tax Revenue	8	10.0
<b>Tax Rate (%)</b>		
Non-Financial	Nil	
Financial	4.0 <sup>a</sup>	
<b>Tax Revenue (\$millions)</b>	<b>\$7.5</b>	

(a) A \$5 million taxable capital deduction is provided to those firms with total taxable capital of less than \$10 million.

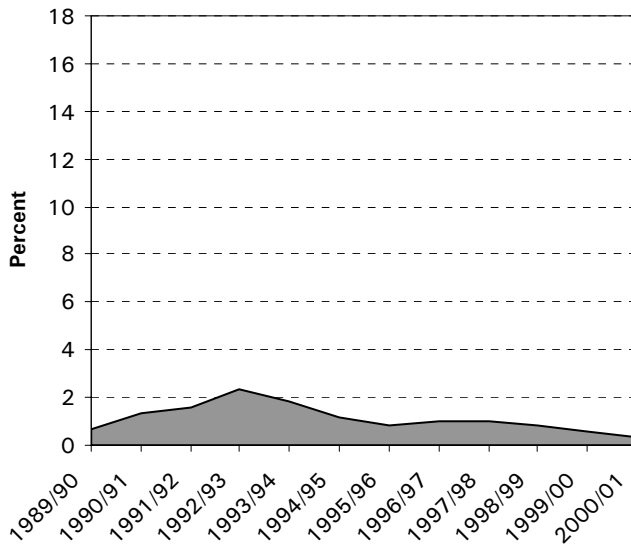
**Figure 16.1: Capital tax as a percent of own-source revenue for Newfoundland**



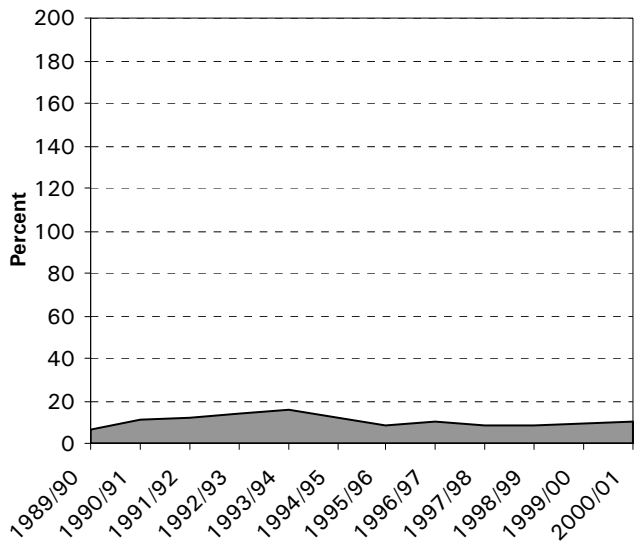
**Figure 16.3: Capital tax as a percent of GDP for Newfoundland**



**Figure 16.2: Capital tax as a percent of business profits for Newfoundland**



**Figure 16.4: Capital tax as a percent of corporate income tax for Newfoundland**



**Table 8a: Corporate capital tax rates (in percent) in Canada, 1989/90–1994/95**

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
<b>Federal</b>						
<i>Non-Financial</i>	0.175	0.175	0.2	0.2	0.2	0.2
<i>Financial</i>	1.0/1.25	1.0/1.25	1.0/1.25	1.0/1.25	1.0/1.25	1.0/1.25
<b>British Columbia</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	0.3	0.3
<i>Financial</i>	2	2	2	2	1.0/3.0	1.0/3.0
<b>Alberta</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	Nil	2	2	2	2	2
<b>Saskatchewan</b>						
<i>Non-Financial</i>	0.5	0.5	0.5	0.6	0.6	0.6
<i>Financial</i>	3	3	3	3	3.25	3.25
<b>Manitoba</b>						
<i>Non-Financial</i>	0.3/0.5	0.3/0.5	0.3/0.5	0.3/0.5	0.3/0.5	0.3/0.5
<i>Financial</i>	3	3	3	3	3	3
<b>Ontario</b>						
<i>Non-Financial</i>	0.3	0.3	0.3	0.3	0.3	0.3
<i>Financial</i>	0.8	0.8	0.8	1	1.12	1.12
<b>Quebec</b>						
<i>Non-Financial</i>	0.5	0.52	0.56	0.56	0.56	0.56
<i>Financial</i>	1.01	1.04	1.12	1.12	1.12	1.12
<b>New Brunswick</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	3	3	3	3	3	3
<b>Nova Scotia</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	3	3	3	3	3	3
<b>Prince Edward Island</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	2.5	2.5	3	3	3	3
<b>Newfoundland</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	3	3	3	3	3	3



**Table 8b: Corporate capital tax rates (in percent) in Canada, 1995/96–2000/01**

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
<b>Federal</b>						
<i>Non-Financial</i>	0.225	0.225	0.225	0.225	0.225	0.225
<i>Financial</i>	1.0/1.25/1.40	1.0/1.25/1.40	1.0/1.25/1.40	1.0/1.25/1.40	1.0/1.25	1.0/1.25
<b>British Columbia</b>						
<i>Non-Financial</i>	0.3	0.3	0.3	0.3	0.3	0.3
<i>Financial</i>	1.0/3.0	1.0/3.0	1.0/3.0	1.0/3.0	1.0/3.0	1.0/3.0
<b>Alberta</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	2	2	2	2	2	2
<b>Saskatchewan</b>						
<i>Non-Financial</i>	0.6	0.6	0.6	0.6	0.6	0.6
<i>Financial</i>	3.25	3.25	3.25	3.25	3.25	3.25
<b>Manitoba</b>						
<i>Non-Financial</i>	0.3/0.5	0.3/0.5	0.3/0.5	0.3/0.5	0.3/0.5	0.3/0.5
<i>Financial</i>	3	3	3	3	3	3
<b>Ontario</b>						
<i>Non-Financial</i>	0.3	0.3	0.3	0.3	0.3	0.3
<i>Financial</i>	1.12	1.12	1.12	0.6/0.99	0.99	1.12
<b>Quebec</b>						
<i>Non-Financial</i>	0.64	0.64	0.64	0.64	0.64	0.64
<i>Financial</i>	1.28	1.28	1.51	1.57	1.57	1.55
<b>New Brunswick</b>						
<i>Non-Financial</i>	Nil	Nil	0.3	0.3	0.3	0.3
<i>Financial</i>	3	3	3	3	3	3
<b>Nova Scotia</b>						
<i>Non-Financial</i>	Nil	Nil	0.25	0.25	0.25	0.25
<i>Financial</i>	3	3	3	3	3	3
<b>Prince Edward Island</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	3	3	3	3	3	3
<b>Newfoundland</b>						
<i>Non-Financial</i>	Nil	Nil	Nil	Nil	Nil	Nil
<i>Financial</i>	3	3	3	4	4	4

## Notes

- 1 There is also a corporate capital tax assessed on insurance companies, which is not dealt with in this study.
- 2 Alberta eliminated the corporate capital tax effective April 1, 2001.
- 3 The amount of the investment deduction will depend on the jurisdiction.
- 4 Recall that jurisdictions may exempt a portion of their taxable capital base. In Saskatchewan, the amount of capital exempted from the corporate capital tax is \$10 million.
- 5 The formal name of this tax (Part VI) derives from the fact that it is detailed in Part VI of the Income Tax Act.
- 6 Exempt from the tax are non-resident-owned investment corporations, bankrupt corporations, deposit insurance corporations, tax-exempt corporations, corporations that are not carrying on business in Canada, and co-operative corporations whose principal business is the marketing or processing of natural products of their members or customers (*Master Tax Guide* 2000: 1033–34).
- 7 Other deductions include the following: amount of deferred tax debits; amount of the deficit deducted while computing shareholders' equity; and the amount of patronage payments deducted from income in the year (McQuillan and Cochrane 1996: 6).
- 8 Deductible items via the investment allowance: shares of another corporation; loans or advances issued to another corporation; bonds, debentures, notes, mortgages, or similar obligations in another corporation; long-term debt of financial institutions; loans or advances to, or a bond, debenture, note, mortgage or similar obligation of, a partnership, all of the members of which, through the year, were corporations that were not exempt from the financial institutions tax; an interest in a partnership; and dividends payable to the corporation at the end of the year by another corporation (McQuillan and Cochrane 1996: 6).
- 9 The tax is formally called a Part I.3 tax, referring to the applicable section of Income Tax Act.
- 10 The taxable capital of financial institutions consists of the sum of capital stock, long-term debt (subordinated debt outstanding greater than 5 years), retained earnings, contributed surplus and other surpluses, and reserves not deducted in computing its income. From this taxable capital a corporation may subtract deferred tax debits and the deficit deducted in computing shareholders' equity.
- 11 The term "financial institution" means a bank, trust company, loan or mortgage company, life insurance company carrying on business in Canada, or a corporation where all, or substantially all, of its assets are shares or debts of related companies of the type described above.
- 12 Although firms with less than \$200 million in taxable capital are exempt from the large financial institutions corporate capital tax, they are still liable to pay the large corporations tax.
- 13 Effective September 2002, British Columbia will eliminate its non-financial institutions corporate capital tax. See the British Columbia Economic and Fiscal Update presented on July 30, 2001.
- 14 Many other deductions exist.
- 15 For a discussion of these components, see Milner 1999: 33–45.
- 16 For a discussion of provincial corporate capital tax bases, see Milner 1999: 116–19.
- 17 Formerly referred to as the Royal Commission on Taxation (1966).
- 18 The study is available on the Internet at <http://www.fin.gc.ca> or at <http://finservtaskforce.fin.gc.ca>.
- 19 It is important to note, however, that the corporate capital tax levies in the United States are insignificant compared to Canadian corporate capital taxes.
- 20 For an excellent discussion of tax principles, please see Kesselman 2000.
- 21 This research has shown that almost all taxes generate some resource misallocation. The only purely non-distorting tax is called a lump-sum tax, which imposes a uniform rate of taxation on all members of the citizenry regardless of income.

- 22 The measurement of social cost is carried forth in a straightforward manner. Economists begin by formulating an economic model of a representative economy, where the hypothetical government levies a distorting tax on the economy's agents. Next, they hold everything else constant and replace the distorting tax with one that is theoretically non-distorting. The social cost is determined by calculating the change in market output between the two tax types (the before-and-after effect).
- 23 The MEC is measured in numerous ways but, generally, the methods used model a representative economy with a distorting tax. Through numerous mathematical manipulations, the economist uses the model to show how a tax increase will further cost society (the marginal social cost).
- 24 The principle of fairness is often also referred to as equity.
- 25 For examples of the "fair share" argument, see *The 1992 BC Budget: 14–15*, *The 1990 Saskatchewan Budget: 34–35*.
- 26 This period encompasses one complete Canadian business cycle (from 1989 to 2001).
- 27 The federal government defined a "large corporation" as one having taxable capital of \$10 million or more.
- 28 This is referred to as a threshold rather than an exemption because firms with less than the threshold amount are still subject to a corporate capital tax, although at a reduced rate.
- 29 The lack of detail in the graphs is due to the standard scale employed for all graphs throughout the study and the large difference in usage between provinces like Alberta (low users) and Quebec and Saskatchewan (high users).
- 30 The base was broadened to include long-term debt and net book value of assets (Robert Vandervelde, personal communication, August 13, 2001).
- 31 The only other province to collect more in corporate capital tax than in corporate income tax is Quebec (1990/91 and 1991/92).

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