Business Taxes in Saskatchewan:

Taking Stock for Progressive and Effective Reform

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Taxes are the price we pay for a civilized society – Oliver W. Holmes

I. Introduction

Taxes are an integral part of our society. They pay for the infrastructure that we rely on in our cities and rural areas, provide for public services such as national defence and health care, help redistribute wealth to facilitate a more just society, and significantly fund essentials such as education. Taxes provide the government with its largest source of revenue, enabling it to carry out the mandate approved by its citizens and respond to the needs of the people.

The sheer complexity of our tax system stems from the fact that everyone in our society pays a host of different taxes. Taxes in Saskatchewan vary in type from personal income tax and provincial sales tax to property tax, corporate income tax, and resource royalties. The types of taxes that the government collects, the rates at which the taxes are charged, and the exemptions and other exceptions that particular tax payers can legitimately claim affect the decisions and actions of taxpayers. The government therefore has an interest and responsibility to ensure that the tax system achieves a balance between maintaining an efficient tax regime that burdens individuals as little as possible and an adequate tax regime that provides the public goods and services necessary to support an equitable society.

In its 2005 spring budget, the Calvert government announced the creation of the Business Tax Review Committee (BTRC). The BTRC's mandate is to "assess the tax system's competitiveness and effectiveness in encouraging job creation and investment in Saskatchewan"[1]. From May until June 2005, the BTRC held public hearings in cities across Saskatchewan and consulted interested groups on business tax issues. The commission is scheduled to release its report in November which will include recommendations to the government on how best to reform the business tax system in Saskatchewan.

Though the report isn't scheduled for release until November, the terms of reference of the commission make the BTRC's findings a foregone conclusion. Given that the most competitive, private investment inducing tax regime is one in which businesses paid no taxes and in which the public infrastructure critical to competitive business was funded fully by tax-paying households, reducing corporate taxes and shifting the relative burden to households is the only logical conclusion to the specific questions being asked by the Calvert government.

Any changes to the business tax regime in the province will have a direct impact on all people of Saskatchewan, not just the business community. A change in certain tax rates or the overall tax mix can have significant affects on the livelihoods of different groups within society. We are all taxpayers, and changes to the business tax regime will affect the relative burden we each must bear in support of government services and other tax-funded benefits.

The Saskatchewan office of the Canadian Centre for Policy Alternatives recognises the importance that this process of tax reform will have in the lives of all the people of Saskatchewan. To this end, we have prepared this report to inform the public in order to enable it to contribute in a meaningful way to the process currently in motion. Reforming the business tax regime of Saskatchewan will affect us all; it is important that all of our voices are heard.

II. Principles of Fair Taxation

All tax regimes are not equal. Some regimes achieve better distribution of wealth among members of a society; others facilitate the retention of wealth by those who already have it. Like any policy, tax policy reflects a balancing act between different priorities of the government. Though tax regimes may be as numerous as there are governments, accepted principles of fair taxation exist against which we can judge their fairness. These principles act as guidelines for policy makers to help them craft a tax regime that meets the standards of fairness in a free and democratic society.

The Ability-to-Pay Principle

The ability to pay principle states that an individual's (or corporation's) tax burden should be roughly correlated to their ability to pay taxes. We recognise that in a fair tax system, someone with greater ability to pay taxes should be asked to contribute more to the common good. This is what is referred to as equity. Within this notion of equity there are two important concepts when thinking about someone's ability to pay:

1 – Horizontal equity: two individuals that share the same ability to pay taxes should bear the same tax burden. For example, it is consistent with the principles of fair taxation for two people with the same income to pay the same amount in taxes, all other things being equal.

2 – Vertical equity: two individuals with different abilities to pay taxes should bear differing tax burdens. An example of this concept would be two people with different incomes; the individual with a higher income should pay more in taxes than the individual earning less.

The ability-to-pay principle is a principle of distributive justice and, when present in the tax system, allows the government to achieve certain goals. Firstly, the goal of a society is to maximize the well being of society as a whole. Taxpayers should be required to make equal sacrifices to reach these ends. Secondly, the principle allows the government to alleviate inequality through the tax system. In applying the criteria of vertical equity, the government can assure a fairer distribution of economic resources.

In the context of corporate taxes, talking about ability to pay may oversimplify a complex issue. The tax incidence, or who actually pays the corporate tax, is difficult to determine with any precision, making it impossible to evaluate a corporation's 'ability-to-pay'. It is possible that an increase in corporate taxes is passed on to consumers in the form of higher prices, in which case evaluating ability-to-pay would need to consider the consumers of the product. This becomes a tenuous task given the fact that tax incidence is uncertain in most cases. Though it may be difficult, if not impossible, to link the notions of equity to the design of a corporate tax system in an economic sense, there may be a case from a political perspective for linking them.

The Benefit Principle

Whereas the ability-to-pay principle achieves fairness between taxpayers in society, the benefit principle attempts to achieve fairness for the individual taxpayer. In its essence, the benefit principle states that those individuals that benefit from a government service should pay for that service. The fairness arises from the fact that those people who benefit from a governmentally provided service should be the ones who pay for the service, and that others do not fund any services of no benefit to them. The benefit principle also attempts to create fairness between taxpayers by avoiding cross-subsidization, meaning that taxpayers in town A shouldn't pay for the local services enjoyed in town B.

The benefit principle is useful for allocating the costs of public services, but only those that are divisible among individuals. Taken to its extreme limit, the benefit principle provides that a tax should resemble a user fee. Of course, in some cases, determining exactly how many government services an individual is 'consuming' is impossible. Furthermore, there are three types of services that we as a society have decided should not be provided based on the benefit principle and exist as exceptions to this norm[2]:

1 – Pure public goods: once these services are provided to one individual in society, all the other members of society benefit equally from their provision. Examples of this type of service would include military defence or environmental protection.

2 – Programs specifically aimed at redistribution of wealth: it would make little sense to ask the beneficiary to pay for a service intended to help those with modest means. Examples of this type of service would include social assistance and old age security plans. Some social assistance programs, on the other hand, are insurance-like (e.g. employment insurance) and can be looked at through the benefit principle.

3 – Universally provided programs: these are services that we have decided everyone has a right to use without paying. Examples of this type of service include health care and education.

Though it remains impossible to create a tax system where the beneficiary pays taxes in direct proportion to the services used, the principle may still guide policy-makers in helping them craft fair rules of taxation. A good example of tying taxes to benefits would be local property taxes, which support municipal services. The rationale is that if someone lives in the municipal area then he/she are benefiting from local services, and thus linking them to property taxes ensures that it is mainly the beneficiaries that pay for the services.

It is also worth noting that although the ability-to-pay and benefit principles help guide decision-makers in designing fair tax regimes, often the two principles conflict in implementation. For example, user fees for health care fall nicely under the benefit principle but run afoul of the ability-to-pay principle of vertical equity.

III – Business Taxes in the Larger Picture

Why Tax Corporations?

Corporations pay a variety of taxes that all citizens pay, as well as a few taxes specific to business. Some commentators argue that taxing corporations hampers business investment in the economy by removing profits from corporations that could otherwise be re-invested. Others submit that a heavy tax burden on corporations in one jurisdiction may lead companies to move their operations to other jurisdictions where taxes are lower.

Finally, some would argue that because corporations are ultimately owned by their shareholders and that shareholders already pay personal income tax on the proceeds from the corporation, that taxing corporate income before it is passed on to shareholders amounts to unfairly taxing that income twice. The government attempts to solve this problem by attempting to offset this double taxation with the dividend tax credit (DTC). However, the problem is that the DTC is one rate regardless of the income tax rate paid by the corporation. Manufacturing firms pay higher tax rates while resource exploitation firms pay lower tax rates, but shareholders are given the same DTC rate regardless of where their holdings lie.

While these arguments hold some truth, there are many good reasons why we tax corporations in a fair and efficient manner. Firstly, insofar as a corporation benefits from a particular public service, the firm should be charged for the service following the benefit principle of fair taxation. From municipal services to taxpayer-subsidised utilities to a well-educated work force, corporations save money because of the services provided by the government. Though it would be difficult to design and implement direct user fees in many instances, there is a good case for general taxation on corporations to pay for unattributable benefits.

Secondly, taxing corporations acts as a withholding tax on foreign owners of capital in the province. Canada has tax treaties with many of its trading partners in order to avoid double taxation of the same income and so if income isn't taxed here in Canada, it will be taxed in the foreign country. By subjecting corporations to taxes in Canada, we are keeping tax proceeds in the country instead of having them transferred to a foreign government. In this respect, taxing foreign owners benefits the economy by keeping funds in the country. Given the high level of foreign ownership of capital in Canada, this justification for taxing corporations is compelling.

Thirdly, taxing corporations may improve vertical equity in the tax system. It is certainly true that many low- and mid-income individuals are owners-in-part of corporations through their retirement savings fund or pension plan. However studies show that equity (stock) ownership increases with rising income[3]. In this sense, taxing corporations is another form of redistributing wealth within society.

Taxing corporations is an easily administered and valuable source of tax revenues. Through their daily operations, corporations collect money from different sources, acting as funnels for funds within the economy. From the government's point of view, corporations are a convenient point at which to tax actors in the economy because they have already done the difficult task of collecting and accounting for the funds. Furthermore, there is general political sentiment that corporations should be taxed because they too are participating in society and should bear their respective tax burden for the common good. As corporations benefit from special legal characteristics bestowed on them by government incorporation legislation, it would seem fair that they are obliged to contribute to the government in return for their special benefit.

Lastly, to the extent that a corporation's taxes fall on what economists call 'economic rents', or profits above what the market should allow, then the tax will not distort the decisions of corporations. It's natural for corporations to make profits, but there are instances when corporations make more profits than should arise because of market failures, such as a barrier to entry by competitors or monopoly power. Taxing economic rents is one of the few taxes that does not reduce efficient allocation of resources in the economy because the corporation would still carry out the same decisions even without the incentives provided by the 'super-profits'. It is arguably difficult to detect when a corporation *is* making pure profits, but taxing corporations nonetheless assures that the government captures these rents which are the least costly to the market from an efficiency point of view.

Types of Taxes paid by Corporations

Businesses pay different types of taxes in their operations, the tax burden depending on the type of business. Corporate income tax is a tax paid on the profits of a corporation, after all costs and other expenditures are taken into consideration. The rate at which a corporation's income is taxed may vary. Canadian-Controlled Private Corporations (CCPC), another term for small businesses, pay a reduced tax rate on their income up to a certain level of their profits. After the small business threshold, CCPCs pay the regular corporate income tax rate. Corporations in the manufacturing and processing sectors in Saskatchewan pay a reduced tax rate on their income, a policy instituted by the government in the mid-1990s in order to promote the industries operating in the province.

Some large corporations also pay what's called a corporate capital tax, which taxes the capital stock of a corporation above a certain threshold. Typically, companies that pay the corporation capital tax are in capital-intensive industries, such as forestry or mining. Financial service providers also pay the corporate capital tax.

Like everyone else in the province, corporations pay a variety of other taxes in their daily operations. The most significant for business is the provincial sales tax, of which approximately 60 percent is paid for by business[4]. Property taxes, fuel taxes, and other local levies are also paid by companies that carry out their operations in Saskatchewan. Resource extraction companies pay resource royalties that attempt to capture the value of the publicly owned natural resource exploited by the companies.

Corporations in Saskatchewan do not pay payroll taxes at the provincial level, such as the federal Employment Insurance plan or Canadian Pension Plan. In other provinces, companies are increasingly subject to payroll taxes, in such forms as paying for employees' health insurance premiums.

It is important to note that just because a corporation physically hands over a tax to the government it does not mean that it is paying that tax. The tax incidence, or who ultimately pays for the tax, is virtually impossible to calculate but remains an important consideration when thinking about tax policy. Tax incidence depends on the elasticity of demand and supply, or how easily consumers and producers can substitute what they are consuming/producing for something else. For example, it is the gasoline companies that hand over the excise tax on fuel, but they pass most of that tax on to consumers in the form of higher prices. The reason for this is that the demand for gasoline is inelastic (when the price goes up, the quantity demanded does not fall that much) so firms can pass on the increase without hurting their sales. Theoretically, it is possible that households are paying a portion of the various corporate taxes in increased product prices and that corporations are paying a portion of the individual income tax in the form of higher wages.

Though the BTRC's mandate is to assess the tax system's competitiveness in encouraging job creation and investment in Saskatchewan, the Calvert government explicitly excluded local taxes, such as property tax, or resource royalties in the review. Given the fact that all taxes paid by businesses affect economic decision-making and thus the business environment in the province, it is questionable whether a limited review will be useful in guiding the government's intended reform of Saskatchewan's tax policy.

Resource industries[5] comprise a large proportion of Saskatchewan's business activity, with royalties in 2004 accounting for 17% of government revenue, compared to 51.8% for all other taxes combined[6]. A review lacking the comprehensiveness required may not only fail to improve Saskatchewan's tax regime, but may actually make the province worse off.

IV – Saskatchewan's Business Tax Regime

In 2004, the government of Saskatchewan collected $3.4 billion in taxes[7]. Of this total, corporations paid $310 million in corporate income tax, accounting for 9.1% of taxes collected. Corporations also paid $371 million in corporate capital tax, accounting for 10.9% of taxes. This compares to $1.2 billion in individual income taxes and $854 million in sales tax, comprising 36.5% and 25% respectively of taxes collected. Taxes such as fuel taxes and other taxes round out the remaining 18.5%.

Taxation revenue in Saskatchewan

	Actual 2004	Percentage of Total Tax Revenue 2004	Percentage of Total Govt Revenue 2004
	(thousands)		
Taxation			
Corporation Capital	$ 371,479	10.9%	5.6%
Corporation Income	310,573	9.1%	4.7%
Individual Income	1,245,763	36.5%	19.0%
Sales	854,480	25%	13.0%
Fuel	356,773	10.5%	5.4%
Tobacco	176,747	5.2%	2.6%
Other	81,881	2.8%	1.5%
Total	3,397,696	100%	51.8%

Saskatchewan Finance Department[8]

The rates at which corporations are taxed in Saskatchewan are roughly in line with other Canadian provinces, the lone exception being Alberta. While some businesses pay higher rates on income than businesses in neighbouring provinces, others pay a lower rate. Like all policies, the tax mix in each province reflects the individualized priorities of the government and the people.

The corporate income tax rate in Saskatchewan is 17%. Companies in the manufacturing and processing (M&P) sectors pay a reduced corporate income tax rate of 10%. This compares to corporate income tax rates of 13.5% in British Columbia, 11.5% in Alberta, 15% in Manitoba, and 14% in Ontario. Of the other provinces, only Ontario has a reduced income tax rate for M&P, which is 12%. The small business income tax rate in Saskatchewan, which applies to the $300,000 of profitable income, is 5.0%. The same rate in British Columbia is 4.5%, in Alberta 3%, in Manitoba 5%, and in Ontario 5.5%.

Corporate Income Tax Rates as of January 1, 2005

Jurisdiction	General Income	M&P General Income	Small Business Income
British Columbia	13.5%	13.5%	4.5%
Alberta	11.5	11.5	3.0
Saskatchewan	17.0	10.0	5.0
Manitoba	15.0	15.0	5.0
Ontario	14.0	12.0	5.5

Business Tax Review Commission[9]

The corporate capital tax rate in Saskatchewan is 0.6%, paid on capital assets above $20 million for Saskatchewan-based corporations and $10 million for corporations operated from outside the province. Though British Columbia and Alberta no longer have a corporate capital tax, Manitoba and Ontario tax all capital assets above $5 million at 0.5% and 0.3% respectively. Financial companies (banks, trusts, and credit unions) pay capital taxes in all provinces, usually between 1% and 3% on net paid up capital.

The provincial sales tax rate in Saskatchewan is 7%, as it is in both British Columbia and Manitoba. Alberta has no sales tax and Ontario's sales tax rate is 8%. Saskatchewan has no forms of payroll taxes. In contrast, Manitoba and Ontario apply labour-based payroll taxes on businesses and in British Columbia, Alberta and Ontario, health care premiums are more often than not paid by businesses on behalf of their employees. Saskatchewan continues to operate its health care system with no health insurance premiums.

Capital Tax and Sales Tax Rates, Payroll Taxes

Jurisdiction	Corporate Capital Tax Rate	Capital Tax Exemption	Sales Tax Rate	Payroll Taxes?
British Columbia	-	-	7%	Yes
Alberta	-	-	-	Yes
Saskatchewan	0.6%	$20 million	7	No
Manitoba	0.5	$5 million	7	Yes
Ontario	0.3	$5 million	8	Yes

Business Tax Review Commission[10]

Tax Expenditures and Average Effective Tax Rate

Understanding how the business tax regime influences the economic environment of the province requires more than looking at the tax rates for various activities. Just as important as the levels of tax rates are the tax expenditures and other fiscal incentive programs that provide targeted businesses with relief from paying taxes. These tax incentives vary from reduced tax rates to investment tax credits or exemptions from paying royalties on resources.

As we have seen, both small business and M&P corporations are taxed at reduced rates compared to other corporations in the province. Other important sectors of the Saskatchewan economy also receive incentives through investment tax credits, employment tax credits, sales and fuel tax exemptions, or reduced income tax rates. Such industries include research and development operations, agriculture, natural resource industries, and the film sector.

Some fiscal incentives, such as a PST exemption, tend to be effective in promoting economic activity by lowering the marginal cost of investment. Other types of tax policies, such as reducing corporate tax rates, achieve the same ends by increasing the marginal rate of return on investment. Finally, some special tax benefits get capitalized into asset prices.

The down side of providing fiscal incentives to some targeted sectors of the economy is that the relative tax burden of non-targeted sectors will increase as a result. Also, though targeted incentives may achieve their policy objectives when they are instituted, as time progresses and the economy changes, they may no longer be necessary or useful. It becomes politically difficult, however, to remove the incentives to which businesses have become accustomed.

The *average effective tax rate* is an economic concept used to understand the actual tax rate paid by a company or individual once tax deductions and other tax benefits are taken into account. For example, if a corporation in Saskatchewan made $1 million in profit in a given year, it would be taxed at 17% and would pay $170,000 in corporate income taxes. However, if that same company were able to claim $500,000 in tax expenditures, it would be left with $500,000 of taxable income. At 17%, the company would pay $85,000 in corporate income tax. Though the rate at which the company is taxed in the second instance is still 17%, when we look at how much it is taxed relative to its profit of $1 million (85,000/1,000,000) we get an effective tax rate of 8.5%.

This concept can be applied to the aggregate of all the businesses in the province. If we had two different companies each with $1 million in taxable income, but one was an M&P corporation and the other was not, then their respective income tax liabilities would be $100,000 for the M&P corporation (at 10%) and $170,000 for the non-M&P corporation (at 17%). The average of the two companies' tax burdens is $135,000, which reflects an average effective tax rate of 13.5%. We can continue this process to add up all the businesses paying taxes in Saskatchewan to estimate the average effective tax rate paid in the province.

Though the statutory corporate income tax rate in Saskatchewan is 17%, the average effective tax rate is significantly lower.

V – The Competitive Position of Saskatchewan

In commissioning the BRTC, the Calvert government explicitly stated that it wanted to better understand the 'competitiveness' of Saskatchewan's tax system in engendering job growth and investment in the province. But what exactly is a 'competitive' tax system? Clearly, taxes affect economic decisions within the province and as such affect the overall competitiveness of Saskatchewan as a place to do business. But taxes alone do not make or break the province in terms of attractiveness to business. Crafting a 'competitive' tax system really means creating a tax system that serves the economic best interest of the entire province in that it promotes job growth, investment, and sustainable economic growth.

According to international accounting firm KPMG, taxes - in all their forms - represent only between 3% to 11% of location-specific business costs[11]. This means that anywhere between 89% to 97% of the cost of doing business is unrelated to taxation. In order to understand where Saskatchewan stands competitively with other provinces, one must consider the other costs of doing business *in addition* to taxes.

KPMG conducts an extensive and extremely thorough study of the cost of doing business in cities across the world. The study, called the Competitive Alternatives report, calculates the costs of doing business, such as labour cost, land and building costs, transportation costs, utility costs, exchange rates, and taxes[12]. The study compares the cost of doing business in different countries, as well as compares the cost of doing business among cities within the same country.

The results of the study show that of all cities in Midwest North America, Saskatoon is the second least costly city in which to operate a business. It is the cheapest place to do business of all urban areas in the Midwest with a population under 500,000. Saskatchewan boasts inexpensive utilities provided by our Crown Corporations, low labour wages, and inexpensive land and building costs. Indeed, businesses benefit greatly from tax-funded government services, from low-cost utilities to a health care system requiring employers to pay no insurance levies. Though businesses in some sectors do pay higher taxes than other jurisdictions in Canada, they also save a significant amount because of these inexpensive factors and tax-funded initiatives.

Indeed, the current business tax regime doesn't seem to be burdening the provincial economy like some make it out to be. Saskatchewan finished fiscal year 2004-05 with a record $643 million (1.6 percent of GDP) surplus, representing a jump of over $800 million from the government's budget projection. Real GDP in Saskatchewan is forecasted to grow by 3 percent in fiscal year 2005-06, despite predictions of retreating commodity prices and a moderate slowdown in world economic growth[13]. Statistics Canada predicts that in 2005, investment growth in Saskatchewan will be 12.6%, the highest rate of growth anywhere in Canada and twice the national average. Saskatchewan is entering its second century in remarkably good shape.

From the robust economy and current growth in investment, it is hard to make out a case that the business tax regime is unduly harming the business climate in the province. In fact, equating high levels of taxation to poor economic performance is an outright false simplification that relies more on 'barstool knowledge' than empirical evidence. In strategic business guru Michael Porter's annual Global Competitiveness Report, which ranks countries based on productivity competitiveness, high tax Nordic countries dominate the top-ten list of most productive countries. According to the report, "there is no evidence that relatively high levels of taxation are preventing these countries from competing effectively in world markets, or from delivering to their respective populations some of the highest standards of living in the world"[14]. Of course, the productivity demonstrated in these high tax countries depends greatly on tax money being spent wisely.

While high tax rates may not necessarily hinder an economy's productivity or performance, policy choices made in other provinces constrain Saskatchewan's ability to maintain levels of business taxation that it deems appropriate for the province's needs. When talking about tax competitiveness, a Prisoner's Dilemma situation exists between the provinces where each province has the incentive to reduce their business tax rates below the rates of other provinces in order to attract mobile firms. Even if it were optimal for provinces to have higher taxes and provide more services with their tax revenue, when firms are mobile, it is individually rational for each province to try to lower taxes. However, when each province does this we end up in a situation with low taxes and few services even if this situation is not optimal for any of the provinces.

VI – Business Taxes in the Larger Picture

Economists agree that high levels of business investment in new buildings, machinery and equipment, research and skills contribute to economic growth and high productivity. It is much less certain that corporate tax rates play a major role in the decisions made by business on how much to invest[15]. It is argued that reducing corporate income taxes and other taxes on business lead in turn to increased investment and likewise economic growth. While there are undoubtedly some truths to this claim, the causal picture is not so certain. A critically important question that any inquiry into tax reform must explore is to what extent would a reduction of business taxes increase investment in the province.

The International Monetary Fund prepared a report in which the authors surveyed a vast array of theoretical and empirical literature on the relationship between taxation and economic growth. According to the report:

> Numerous studies have attempted to measure the influence of the cost of capital on investment. While many of the studies find that investment is negatively related to the cost of capital, most find that the size of the effect is rather small.[16]

In other words, the IMF report found that reducing corporate tax rates led to an increase in investment, but that the corresponding increase in investment was rather small. The study went on to conclude that investment is much more sensitive to output levels than it is to cost of capital. This means that business investment decisions depend much more on the growth of demand in an economy than on the cost of capital.

Recent evidence at the federal level in Canada confirms this conclusion. Since the year 2000, the federal government has reduced its corporate income tax rate from 28% to 21% - a reduction of 25% of the statutory rate. If investment did indeed respond negatively to corporate tax rates, we would expect levels of investment in Canada to rise as corporate taxes have been substantially reduced.

In fact, quite the opposite has occurred in the last five years. Since 1999, investment in structures, machinery and equipment as a percent of GDP has fallen from 12.9% to 10.8%. At the same time, corporate pre-tax profits have increased from 11.3% of GDP to 13.8%[17]. All this as the federal government has slashed its corporate tax rates by 25%. This would seem to indicate that the windfall from the tax cuts are not leading to growth in investment, but may be going elsewhere. Statistics Canada recently reported, “that corporations are accumulating large cash surpluses as they use high profits to improve balance sheets rather than to invest”. Tax cuts haven’t been achieving higher levels of business investment, but have instead been used to improve corporate performance and reward stockholders[18].

Though the IMF study and recent evidence at the federal level call into question the magnitude of the effect that tax cuts have on private investment, there is certainly a positive link between tax cuts and private investment. How much tax windfall is reinvested depends on a variety of factors and is difficult to predict. Some studies looking at manufacturing firms suggest that taxes do have an effect on investment[19].

However, these studies do not take into account the effects on business of a reduction in government-funded services that would follow from corporate tax cuts.

VII – Public Investment: the Alternative Tax Cut

Instead of giving tax cuts to corporations and relying on them to spend the windfall on new investments, the provincial government could alternatively keep the tax proceeds and invest directly in the province. As has been evidenced at the federal level, tax cuts are not being reinvested at significant rates, but rather tend to go towards improving debt-to-equity ratios or providing higher dividends to stockholders. By relying on the private sector to distribute tax cuts, we risk having them leave the province or put to unproductive use.

The government has a responsibility to promote a dynamic economy with innovative capacity and sustainable economic growth. Public investment can play a major role in increasing productive and innovative capacity by investing in targeted programs instead of relying on the private sector to fill the gap. Public investment can create a positive business climate in which corporations benefit from publicly provided cost-reducing services.

Investment in education, at all levels from pre-school to post-secondary, is a proven means for producing high social rates of return and has a high impact on business sector productivity[20]. Workplace training is another area of crucial potential for the economy at large and businesses in particular. As the Saskatchewan economy moves from one based on resource extraction and primary productivity to a knowledge-based economy, it is critical that we provide lifelong learning opportunities for non-managerial/professional workers in order to maintain a productive workforce. Business would benefit directly from this process of lifelong training. Investment in physical infrastructure, from roads and highways to water transport systems or electronic infrastructure, can promote better business productivity and its associated general benefits.[21]

Public investment is critical in sectors of the economy that provide spillover benefits to society as a whole but which are not captured in private markets. A perfect example of this is the investment tax credit instituted in Saskatchewan for research and development operations. Though this is a positive step, more needs to be done to support research and development and training in order that the benefits disperse throughout the economy. Support programs such as these can be used to build more high-value industries and better jobs for the people of Saskatchewan.

VII – Conclusion

Though some people have protested that corporations in Saskatchewan are unfairly taxed, the level of taxation in the province is not far off from the Canadian average. What's more, taxpayer-funded public services directly benefit the business community in the province, providing businesses with inexpensive factors of production that make Saskatchewan an incredibly competitive place to do business. The healthy economic growth and high levels of investment are testament to the success of both our tax and non-tax economic policies.

This isn't to say that lowering business taxes wouldn't improve Saskatchewan's tax competitiveness. Indeed, a system in which businesses were not taxed at all would be extremely competitive, but the consequences of such a system would mean that households would bear the entire burden of supporting government services. The amount of the tax burden that we shift from businesses to households is crucially important to any consideration of an 'optimal' level of business taxation. Unfortunately, the terms of reference of the BTRC neglect this critical aspect of business taxation policy. There is no discussion of the consequences of shifting the tax burden from corporations to Saskatchewan households, bringing into question equity considerations of their final recommendations.

Our current economic success doesn't mean that we cannot or should not improve on the business tax regime in the province. We must not pass up the opportunity posed by the BTRC's review and the Calvert government's willingness to consider changes to how we tax business in the province. Across-the-board tax cuts may provide short-term windfalls to companies in the province, but it is questionable how well tax cuts will promote reinvestment in the Saskatchewan economy.

A progressive tax regime that fairly taxes business for the benefits it enjoys will make it possible for the government to continue the public investment support for the private sector in key areas of strategic importance. The livelihoods of all the people of Saskatchewan are at stake when the government reforms the business tax regime; let's make sure the reform serves us all.

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