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FAST FACTS

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The Sky is NOT Falling

For years now our Provincial government has been pressured by the business community to lower taxes. Businesses and their lobby groups are understandably reticent to justify these requests by simply stating that they want more money. Rather, they have argued that lower business taxes would benefit all Manitobans by making the economy more competitive. The implication seems to be that the Manitoba economy, labouring under the restrictive yoke of state taxation, is falling behind the rest of the country.

The claim that taxes are overly restrictive in Manitoba is getting more and more difficult to justify given the provincial government's tax cutting. Consultants KPMG make a detailed survey of costs for cities around the world. In its 2008 *Competitive Alternatives Report* Winnipeg fares very well. In fact it has the lowest corporate effective income tax rate (18.3%) of nine large Canadian cities (The others are: Calgary 22.5%, Edmonton 23%, Montreal 22.3%, Ottawa 24.8%, Regina 20.7%, Saskatoon 21.0%, Toronto 24.4%, Vancouver 21.5%).

Firms will, indeed, locate where profits are the highest, but taxation is only one, very small component of profitability. The 2006 version of the study by KPMG estimated that taxes only make up between 5% and 11% of manufacturing and 3% to 8% of non-manufacturing costs. Overall costs in Manitoba are also relatively low. The 2008 KPMG report ranks Winnipeg second lowest of the nine Canadian cities, behind only Saskatoon in terms of overall costs. Even costs, however, are not the ultimate deciding factor in firms' location decisions; profitability is. The question for any firm is not, then, just about the level of taxation, or even costs, but overall profits.

A recent CCPA report by economist Jim Stanford criticized the federal government for decreasing the national corporate tax rate and provided data to demonstrate that the bulk of the savings from these cuts would go directly to the very profitable oil producing provinces of Newfoundland, Alberta and Saskatchewan. However, a quick glance at the profit data also reveals a genuine good news story for Manitoba business. Pre-tax profits as a percent of provincial

Pre Tax Profits By Province

% of GDP	2004	2005	2006	2007
BC	10.61	11.79	11.82	10.98
Alberta	21.23	24.06	22.16	21.77
Saskatchewan	17.8	21.31	22.22	24.42
MANITOBA	9.95	10.28	12.71	13.87
Ontario	12.22	11.54	11.55	11.15
Non-Oil	10.37	10.39	10.86	10.85
CANADA	13.1	13.77	13.75	13.74

Source: Statistics Canada Table 3840001

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GDP have been growing rapidly in the province, from under 10% in 2004 to almost 14% in 2007. This is the strongest growth in profits of all the non- oil producing provinces. By 2007, Manitoba business enjoyed the highest pre-tax profits of all the non-oil producing provinces, well above the average non-oil producing average of 10.85%.

Of course it is still possible that the business community in Manitoba could be struggling under the "heavy hand" of government taxation, resulting in after tax profits that are much lower than before taxes are deducted. Determining the exact amount that corporations pay in taxes is difficult because of the wide variety of taxes levied in this country and the even more complicated issue of tax incidence. Tax incidence is determining who actually pays a tax. Just because one party hands over the money for a tax does not necessarily mean that that party is paying it. For example, gasoline taxes are handed over to the government by the gasoline companies, but economists are pretty sure that these companies are passing the taxes on to their consumers in the form of price increases. In other words, it is the consumer who actually pays the tax. It is possible to estimate the taxes that corporations hand over directly in the form of corporate income taxes and other levies like Manitoba's payroll tax. Although Statistics Canada does collect this information on a provincial level, their most recent data is for 2005. The Chartered Accountants of Manitoba, however, produce a yearly Manitoba "check up" that contains slightly more recent estimates.

After Tax Profits 2006

	After Tax Profits (% of GDP)	*Percentage Point Change from 2005*
BC	10.3	0.2
Alberta	19.5	-1.0
Saskatchewan	19.8	0.7
Manitoba	11.2	1.3
Ontario	9.34	-0.2
Canada	11.3	0.0

Source: 2007 Manitoba Check Up at http://www.icam.mb.ca/pdf/mb_check-up.pdf

Again, the influence of the oil patch is evident with Alberta and Saskatchewan businesses enjoying high after tax profits as a percent of GDP. Manitoba's strong profits remain even after government taxation is taken into account. After tax profits as a percent of GDP are higher in Manitoba than both BC and Ontario. It is only very marginally lower than the national average, which as we saw in the previous table, is dragged up considerably by the oil rich provinces. Further, after tax profits in Manitoba - as a percent of GDP - increased by 1.3% between 2005 and 2006, well above the Canadian average.

The conclusion seems fairly clear. For a province whose business profits are not rocketed into orbit by the good fortune of sitting on a gigantic puddle of oil, the Manitoba corporate community is doing quite well. Far from having an economy unattractive to investors, Manitoba's before and after tax profitability ranks among the best in the nation; its costs and taxation levels are among the lowest. Far from the sky falling, these have been sunny days for Manitoba business, a fact that, unsurprisingly, rarely comes up when they are lobbying for continued tax cuts.

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