REVENUE OPTIONS

October 2010

Northwest Territories Finance

Kīspin ki nitawihtīn ā nīhīyawihk ōma ācimōwin, tipwēsinēn.

Cree

ʔerihtł'ís dëne súłiné yati t'a huts'elkër xa beyéyati theʔą ʔat'e, nuwe ts'ën yółti.

Chipewyan

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English

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Français

Jii gwandak izhii ginjìk vat'atr'ijąhch'uu zhìt yinohthan jì', diits'àt ginohknìi.

Gwich'in

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.

Inuinnaqtun

ᑕᒃᑯᐊ ᑎᑎᖅᑲᐃᑦ ᐱᔪᒪᒍᕕᒋᑦ ᐃᓄᒃᑎᑐᓕᖅᓯᒪᓗᑎᒃ, ᐅᕙᑦᑎᓐᓄᑦ ᐅᖃᓚ ᔭᓐᓇᖅᑐᑎᑦ.

Inuktitut

UVANITTUAQ ILITCHURISUKUPKU INUVIALUKTUN, QUQUAQLUTA.

Inuvialuktun

K'éhshó got'įne xədə́ k'é hederi ʔedįhtl'é yeriniwę nídé dúle.

North Slavey

Edi gondı dehgéh got'įe zhatié k'ę́ę́ edatł'éh enahddhę nide.

South Slavey

Tłįchǫ yati k'ę̀ę̀ dè wegodıì wek'èhoızǫ nęęwǫ dè, gots'ǫ̀ goahde.

Tłįchǫ

FOREWORD

For the past two years, the Department of Finance has committed to consult NWT residents and businesses on important tax initiatives. The input received from these consultations is used to help guide the GNWT's decisions on long-term tax and fiscal strategies.

As committed in my 2010 Budget Address, I am pleased to host a third round of revenue consultation. This year, I am proposing for consideration two questions:

1. Should the GNWT introduce a revenue neutral carbon tax in an effort to reduce greenhouse gas emissions?
2. Should the GNWT introduce a hotel tax to fund tourism strategies?

Protecting the environment and promoting the NWT as a place to visit or live have remained priorities for the GNWT. I encourage you to review this paper, which provides the background and context to facilitate the discussion.

I am looking forward to receiving your comments.

J. M. Miltenberger

Honourable J. Michael Miltenberger
Minister of Finance

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1. Introduction

> ***16th Legislative Assembly Vision***
> *"Strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories"*

In October 2009, the Minister of Finance held public consultations and a stakeholder conference to examine the NWT's current tax system. The focus was on options for changing the NWT tax mix to further the economic, social, and environmental objectives set out by the 16th Legislative Assembly vision, without increasing the total tax burden on residents and businesses.

Results of these public discussions identified that many wanted the NWT tax system to be based on the values of long-term and sustainable actions, with effective management of the scale and pace of developments and sustainability of economic activities and environment.

A wide range of opinions and ideas were received from NWT residents, businesses and organizations on how the NWT tax system might be changed to better reflect the goals and values of NWT residents. One issue that has been consistently raised is whether or not the GNWT should implement a carbon tax. This paper therefore describes what a carbon tax would entail and ways to make the tax revenue-neutral from the GNWT's perspective.

A carbon tax can be seen as a way to encourage residents and businesses to reduce their consumption of fossil fuel and adopt cleaner energy alternatives in order to mitigate climate change due to greenhouse gas emissions. A carbon tax would support the goals of the *NWT Greenhouse Gas Strategy: A Strategy to Control Greenhouse Gas Emissions in the NWT.* This new tax, if implemented, would represent a significant change to the NWT tax system.

In addition, this paper presents options for a hotel room levy to fund tourism promotion. These options have been presented in response to a motion passed by the Northwest Territories Association of Communities at their 2010 Annual General Meeting supporting a municipal hotel room levy.

This discussion paper does not reflect government tax policy; rather, it is intended to provide the background and context to stimulate public discussion, and to solicit input from residents and businesses on these revenue options. As the Minister indicated in his 2010 Budget Address, the ideas received will guide the Department's longer term work on the tax and fiscal structure of the NWT, and any proposal for significant change to the tax system will require further research, analysis, and consultation prior to being brought forward and implemented.

2. Setting the Context

The Department of Finance held public consultations in 2008 and 2009 on revenue options and the appropriate tax mix for the NWT, respectively.

The feedback received from these consultations indicated that respondents were generally concerned about the economy, the environment, and social issues. They wanted the government to discharge its fiscal responsibilities based on the values of long-term and sustainable actions, with effective management of the scale and pace of development, and sustainability of economic activities and the environment.

Concerns about the economy included the need for greater diversification, with emphasis on renewable resources, the high cost of living in the North, income disparity for low income families, the decreasing population and how to attract in-migration to the NWT.

Fiscal issues raised included a focus on strategic or “smart” taxation, a Heritage Fund for future generations, and tax leakage from fly-in/fly-out jobs at the NWT’s diamond mines, where employees earn income in the NWT but maintain residence outside the territory.

Social concerns included quality of education, childcare, housing availability and affordability, high rates of family violence, substance abuse and cultural issues.

Environmental concerns included climate change and sustainable development. There appeared to be a consensus that actions need to be taken now on environmental issues to protect the future.

Addressing these concerns would require balancing sometimes conflicting goals such as resource development versus environment preservation, redistribution of wealth through a progressive income tax system versus lowering taxes to encourage in-migration, promoting energy conservation through higher consumption taxes versus reducing the cost of living. The ultimate goal is to achieve a balance to stimulate economic growth and development that is also environmentally and socially sustainable.

Tax proposals advocated through the public consultations fall into three categories:

- Discouraging behaviour that has harmful impacts on the environment.
- Discouraging behaviour that has harmful social and health outcomes.
- Providing incentives to diversify the economy and encourage population growth.

As a result of these consultations and due to the economic downturn, the GNWT deferred implementing major tax increases, and introduced relatively small tax measures in the last two budgets.

2009-10 Budget

- For the General Taxation Area, raising the 2009 school tax, as well as the general property tax on certain property classes (mining, oil and gas, and pipeline), by 15 per cent;
- Raising liquor mark-ups by 10 per cent;
- Raising tobacco tax rates to reflect inflation in retail prices in Yellowknife.

2010-11 Budget

- Adjusting property tax rates, tobacco tax rates, and liquor mark-ups to inflation.

As a follow-up to the 2009 roundtable, the Minister of Finance also committed in his 2010 Budget Address to a third public consultation to discuss revenue options for possible implementation in future budgets.

3. Revenue Option 1: "Should the GNWT Implement a Carbon Tax?"

3.1. What is a Carbon Tax?

A carbon tax is a consumption tax that is levied on fuels based on the carbon content. The tax is intended to encourage individuals and businesses to reduce their consumption of fuels that contribute to global warming through their greenhouse gas emissions.

A carbon tax differs from the current NWT fuel tax in that it applies to a broader range of fuels than the current fuel tax, and that the carbon tax rate for each fuel type would be based on its carbon content. For example: propane, natural gas, and diesel fuel used for home heating would no longer be exempt from tax.

The GNWT currently levies a fuel tax on the consumption of gasoline, aviation and diesel fuel used in combustion engines. Natural gas, propane, and fuel used for space heating are exempt from the tax. Current fuel tax rates are as follows:

Gasoline (on highway)[1]	10.7 ¢per litre
Gasoline (off highway)[1]	6.4 ¢ per litre
Diesel (motive)	9.1 ¢ per litre
Diesel (non-motive, other)[2]	3.1 ¢ per litre
Rail	11.4 ¢ per litre
Aviation	1.0 ¢ per litre

(1) on-highway refers to communities served by the NWT highway system. The off-highway rate applies in communities not served by the NWT's all-weather roads.
(2) applies to fuel used in stationary internal combustion engines.

In Canada, fuel taxes are generally linked to government costs to supply transportation infrastructure, as the taxes are imposed primarily on fuel used in motor vehicles driven on publicly-financed roads. Fuel used off-road is often exempt, or taxed at a lower rate. However, this link is not as strong in the NWT as its fuel tax often applies for off road uses, although sometimes at a lower rate.

To date, Quebec, Alberta, and British Columbia are the only Canadian jurisdictions to have introduced a carbon tax.

On October 1, 2007, Quebec imposed a carbon tax on energy use. The tax revenues, estimated at $200 million a year, are deposited into the provincial Green Fund to finance sustainable development projects.

In 2007, Alberta also imposed a carbon tax on large industrial companies in the province (mostly oil sand companies and coal-fired electricity plants) with the introduction of the *Climate Change and Emissions Management Act.* The Act establishes a technology fund whose revenues from the tax, at $15 dollars per tonne of CO_2 equivalent, are used to fund projects that align with Alberta's Climate Change Strategy such as carbon capture and storage, and greening energy production. This dedicated fund is administered by the Climate Change and Emissions Management Corporation (CCEMC), an Alberta-based not-for-profit, independent corporation with its mandate established by the Climate Change and Emissions Management Fund Administration Regulation.

British Columbia implemented a broad-based, revenue-neutral carbon tax in 2008. The tax was introduced at a rate of $10 per tonne of CO_2 equivalent emissions, increasing to $30 a tonne by July 2012. Its main purpose was to achieve reduction in the use of fossil fuels, rather than to raise new revenues. Therefore, to help offset the impact of this new tax, the province also introduced a number of income tax credits and tax rate reductions for residents and businesses.

In its 2008 Budget, New Brunswick proposed a carbon tax based on the British Columbia model; however, the proposed tax has not been implemented due to lack of public support *("Building a Better Tax System", Final Report of the Select Committee on Tax Review*).

3.2. Possible Carbon Tax for the NWT

An NWT carbon tax could apply to a variety of fossil fuels such as gasoline, diesel, natural gas, propane, and coal, used in transportation, energy generation and home heating. Tax rates would be based on the per tonnage carbon dioxide equivalent emissions from the combustion of each fuel. Wood would not be taxable as it is considered a renewable energy source. Since the NWT only has jurisdiction to impose direct taxation within its boundaries, fuels exported for use outside the NWT would be exempt.

This carbon tax would be in addition to the current NWT fuel tax. This paper uses a specific example of a carbon tax based on a $10 per tonne of CO_2 equivalent emissions (the initial British Columbia rate) in an attempt to gauge its implications for the NWT. Based on this rate, the carbon tax rates on the various fuel types would be:

- Aviation fuel 2.46¢/litre
- Gasoline 2.22¢/litre
- Diesel 2.55¢/litre
- Jet fuel 2.61¢/litre
- Heating fuel 2.55¢/litre
- Propane 1.54¢/litre
- Natural gas 1.90¢/m3

3.3. Implications of a Carbon Tax in the NWT

Based on the 2009-10 fuel consumption data, it is estimated that a NWT carbon tax would generate $11.2 million in revenue at the above tax rates. About half of the tax would be paid, directly or indirectly, by individuals, and the rest by businesses, primarily in the resource sector.

The North depends on fossil fuels for a variety of reasons:

- Harsh northern environment with long and cold winters where home heating mainly relies on diesel or propane. Currently, alternative energy sources such as wind mills, solar panels, or geothermal installations, are not financially affordable, and technical problems mean that currently they are not proven as reliable energy sources in the North;
- Continued reliance on diesel for power generation in isolated communities outside the current electricity transmission grid;
- Continued reliance on diesel fuel by the transportation and resource sectors for their operations.

Despite these reasons, the GNWT is committed to investing in alternative energies. For example, about $18.9 million has been allocated since 2009-10 for alternative energy research and development including hydro, wind, and geothermal projects.

As was done in British Columbia, the high costs associated with the imposition of a carbon tax could be offset through reductions in other taxes. It is important to note that even with offsetting tax measures, a carbon tax could not be truly cost-neutral for everybody. There would be winners and losers due to differences in consumption habits, household income, family size, community of residence, or whether the tax could be passed on. For example, a household may pay an additional $400 annually in carbon tax, but may only receive $300 in income tax reductions. Individuals and families who use less fuel will pay less tax than those who consume more.

Following the Quebec model, carbon tax revenues could be used for new and enhanced programs to assist people in switching to low-carbon energy options.

Following the BC model, carbon tax revenues could be returned to residents and businesses through reductions in income taxes or through tax credits.

A blend of these two models could be used to offset most carbon taxes collected through income tax reductions and/or tax credits, while retaining some funds for new and enhanced programs that promote the switch to less polluting fuels.

In general, taxpayers can be divided into four categories:

(1) Businesses with the ability to pass the tax on through higher prices: This might include retail, service, transportation, and hospitality industry. Added costs to these sectors could be presumably recovered from their customers.

(2) Businesses without the ability to pass the tax on because prices are set outside the control of the business: Businesses who face prices set in world markets such as the oil and gas and mining industries would be included in this category. Added costs to such businesses include both direct costs for their own fuel consumption, and indirect costs through higher transportation and other costs.

(3) Individuals: Individuals would pay the tax directly through their own fuel consumption, or indirectly through higher prices of goods and services.

(4) Municipalities, hospitals, and other government entities: Even if these entities were to be exempted from a carbon tax, they might still bear added indirect costs, which would need to be addressed if significant.

3.4. Possible Measures to Offset Carbon Tax

If the intent of introducing a carbon tax is strictly to encourage reduced consumption of fossil fuels and not as an additional revenue source, the tax could be made revenue neutral for the GNWT. Accordingly, the revenue received through a carbon tax could flow back to NWT residents and businesses through income tax reductions and credits. These measures would offset the impacts of the new tax on the costs of living and business in the territory; however, no offset measures could completely negate the effects of the new tax for all taxpayers. Further, it is expected that the GNWT would incur higher expenditures associated with the tax, such as higher energy costs for housing corporation and social assistance clients, and higher freight costs on government purchases.

The following provides possible offsets assuming a carbon tax based on a $10 per tonne of carbon dioxide equivalent emissions. At this rate, the carbon tax would generate an estimated $11.2 million, divided between businesses and individuals at about $5.6 million each.

(1) Carbon Tax Offsets for Corporations

Reducing the general corporate tax rate from 11.5 per cent to 10.6 per cent would reduce corporate income tax revenue by about $5.8 million, thus offsetting the estimated carbon tax paid by large corporations.

TABLE 1: POSSIBLE CARBON TAX OFFSET FOR LARGE CORPORATIONS			
	Current	Proposed New Measure	Change
General tax rate	11.5%	10.6%	(0.9%)
Estimated corporate income tax revenue (millions)	$75.1	$69.3	($5.8)

Small businesses in the NWT are usually in the retail, service, transportation, and hospitality sectors. As discussed earlier, many of these businesses could pass the carbon tax on to their customers. Business owners could also benefit from income tax deductions and credits for individuals. However, a reduction in the current small business rate of 4 per cent could form part of a package of offsetting measures.

(2) Carbon Tax Offsets for Individuals

Among a number of possible options, the following four are selected to demonstrate how the impact of the estimated $5.6 million cost borne by individuals could be softened, with no attempts to identify who would be better or worse off in each option.

- Option 1: an equal reduction in tax rates (TABLE 2);
- Option 2: an equal percentage reduction in tax rates (TABLE 3);
- Option 3: an average refundable tax credit of $100 per adult and $50 per child under the age of 18 (this refundable tax credit could be adjusted by region in recognition of the higher fuel costs in more isolated communities), with the remaining carbon tax offset by an equal reduction in tax rates (TABLE 4);
- Option 4: an average refundable tax credit of $100 per adult and $50 per child under the age of 18 (this refundable tax credit could be adjusted by region in recognition of the higher fuel costs in more isolated communities), with the remaining carbon tax offset by an equal percentage reduction in tax rates (TABLE 5).

The listing of the above options is not at all exhaustive. Other options might include providing refundable income tax credits only with no tax cuts, or providing a refundable income tax credit combined with an increase in income support programs.

The following tables show the calculation for Option 1 to 4:

TABLE 2: OPTION 1			
2010 Taxable Income Brackets	Current PIT Rates (%)	Proposed New PIT Rates (%)	
0 to $37,106	5.90	5.30	
$37,106 to $74,214	8.60	8.00	
$74,214 to $120,656	12.20	11.60	
Over $120,656	14.05	13.45	
	Estimated 2010 PIT Revenue	Estimated PIT Revenue at New Tax Rates	Change
Personal income tax revenue (millions)	$82.0	$76.4	$(5.6)

Under Option 1, each of the NWT's four tax brackets would be reduced by 0.6 percentage points. NWT residents would receive a tax reduction of about 0.6% of taxable income, less any tax credits they receive.

Residents who do not pay tax would not receive any benefit from a tax reduction under this option. Although many such residents would either live with someone else who would pay taxes and receive a tax reduction, or receiving income support, or live in public housing, and be protected from some of the additional costs, in many cases lower income residents would face some higher costs.

TABLE 3: OPTION 2			
2010 Taxable Income Brackets	Current PIT Rates (%)	Proposed New PIT Rates (%)	
0 to $37,106	5.90	5.52	
$37,106 to $74,214	8.60	8.04	
$74,214 to $120,656	12.20	11.41	
Over $120,656	14.05	13.14	
	Estimated 2010 PIT Revenue	Estimated PIT Revenue at New Tax Rates	Change
Personal income tax revenue (millions)	$82.0	$76.5	$(5.5)

Under Option 2, each of the NWT's four tax brackets would be reduced by about 6.7 %. NWT residents would see their NWT income taxes reduced by 6.7%. Higher income residents would receive a slightly higher reduction than under Option 1.

As under Option 1, residents who do not pay tax would not receive any benefit from a tax reduction under this option. Although many such residents would either live with someone else who would pay taxes and receive a tax reduction, or receive income support, or live in public housing, and be protected from some of the additional costs, in many cases lower income residents would face some higher costs.

TABLE 4: OPTION 3			
Age Group	Population (Based on July 1 2009 Data)	Refundable Credit	Total
Under 18 18 and older	11,630 31,809	$50 $100	$581,500 $3,180,900
	43,439		$3,762,400
Carbon tax remaining for offset (millions)	$5.6 - $3.8 = $1.8		
2010 Taxable Income Brackets	Current PIT Rates (%)	Proposed New PIT Rates (%)	
0 – $37,106 $37,106 – $74,214 $74,214 – $120,656 Over $120,656	5.90 8.60 12.20 14.05	5.72 8.42 12.02 13.87	
	Estimated 2010 Revenue	Estimated Revenue at New Tax Rates	Change
Personal income tax revenue (millions)	$82.0	$80.2	$(1.8)

Under Option 3, each of the NWT's four tax brackets would be reduced by 0.18 percentage points. NWT residents would receive a tax reduction of about 0.18% of taxable income, less any tax credits they receive. Residents would receive an additional refundable credit of $100 per adult and $50 per child.

Under this option residents who do not pay tax would still receive a credit. In many cases this credit would be enough to offset additional costs, but there is still no guarantee that all lower income residents, particularly those in higher cost communities who pay their own energy bills, would be fully compensated.

TABLE 5: OPTION 4			
Age Group	Population (Based on July 1, 2009 Data)	Refundable Credit	Total
Under 18 18 and older	11,630 31,809	$50 $100	$581,500 $3,180,900
	43,439		$3,762,400
Carbon tax remaining for offset (millions)	$5.6 - $3.8 = $1.8		
2010 Taxable Income Brackets	Current PIT Rates (%)	Proposed New PIT Rates (%)	
0 – $37,106 $37,106 – $74,214 $74,214 – $120,656 Over $120,656	5.90 8.60 12.20 14.05	5.77 8.42 11.95 13.75	
	Estimated 2010 Revenue	Estimated Revenue at New Tax Rates	Change
Personal income tax revenue (millions)	$82.0	$80.2	$(1.8)

Under Option 4, each of the NWT's four tax brackets would be reduced by about 2.1 per cent. All taxpaying NWT residents would see their NWT income taxes reduced by 2.1%. Higher income residents would receive a slightly higher reduction than under option 1. Residents would receive an additional refundable credit of $100 per adult and $50 per child.

Under this option residents who do not pay tax would still receive a credit. In many cases this credit would be enough to offset additional costs, but there is still no guarantee that all lower income residents, particularly those in higher cost communities who pay their own energy bills, would be fully compensated.

The four options above are used for illustration only. Although there are many variations of these options that could be used, it would be impossible to design offset measures that would effectively make the new tax cost-neutral for every resident of the NWT.

Under all of these options, there would be an incentive for people to conserve. For example, a household living in a well-insulated home heated with wood might pay $200 a year in carbon tax, and receive a $300 benefit through income tax reductions, while another household heating with oil and driving more might pay $400 a year in carbon tax but get the same $300 in income tax reductions.

3.5. Cap-and-Trade: An alternative

A market-based cap-and-trade system sets limits on the greenhouse gas emissions linked to global warming. Over time, these limits become stricter, allowing less and less pollution, until the ultimate reduction goal is achieved. The total emissions allowed under the cap are divided into credits, or allowances. The system identifies companies (emitters) that are required to comply with the overall emission target for each reporting period. Each emitter is then assigned a specific number of credits, either free or though auctioning. Emitters whose emissions exceed their credits can avoid penalties for non-compliance by purchasing unused credits from other emitters. The lower polluting emitters can either sell their surplus credits in the marketplace or bank them for future use.

In June 2009, Environment Canada released a draft document for public comment on Canada's Offset System for Greenhouse Gases. As a voluntary program administered under the *Canadian Environmental Protection Act, 1999*, the proposed system would offer offset credits to registered projects that prove their reductions in greenhouse gases. Each offset credit would represent one tonne of carbon dioxide equivalent reduced or removed, and could be traded on the market.

<u>Regional Greenhouse Gas Initiative (RGGI)</u>

Established in 2003, the RGGI is the first cooperative effort in North America to reduce greenhouse gas emissions from the power generation sector through a market-based cap-and-trade approach. The RGGI lays the foundation for a North America carbon market, where emitters can obtain emission allowances in quarterly auctions, or through various secondary markets such as the Chicago Climate Futures Exchange (CCFE) or the Green Exchange.

Participants in this Initiative are ten north-eastern US states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont. In Canada, Ontario, Quebec, and New Brunswick are observers.

Western Climate Initiative (WCI)

Rather than waiting for a national strategy on the cap and trade system, British Columbia, Manitoba, Ontario and Quebec have joined the US Western Climate Initiative's system (WCI). Formed in 2007, the WCI consists of these four Canadian provinces and seven western US states (Washington, Oregon, California, Arizona, Montana, Utah, and New Mexico). Observers to the organization include Yukon, Saskatchewan, Nova Scotia, and several US and Mexican states. The WCI plans to launch its cap-and-trade system in 2012.

It is unlikely that a market for trading carbon credits could be developed for small jurisdictions like the NWT, where there are only a few major emitters, all from the resource sector. Should the NWT join the WCI or wait for a national strategy? While the cap-and-trade system supports the goals of protecting the environment, an analysis of its feasibility in the NWT would be required.

Participation in a cap and trade system could occur at the same time as a carbon tax.

QUESTIONS:

1. ***Should the GNWT introduce a carbon tax?***
2. ***If so, at what rate per tonne of CO_2 equivalent emissions?***
3. ***Should the carbon tax revenue be used to reduce income taxes or be used for a combination of income tax cuts and government programs under the NWT Greenhouse Gas Strategy?***
4. ***How should offsetting income tax cuts be structured?***

4. Revenue Option 2: "Should the GNWT Implement a Hotel Tax?"

4.1. A NWT Perspective

In 2000, the GNWT proposed the implementation of a hotel tax that would raise money for investment in the tourism industry. The tax would charge consumers a 5 per cent levy of the room charge on their short-term accommodation, 28 days or less, in commercial lodging establishments having five rooms or more. At that time, it was estimated that the tax would generate about $1.2 million in new revenues for the GNWT to fund tourism initiatives; however, the GNWT did not proceed with the tax due to concerns about its impact on the tourism industry.

There is now renewed interest in a hotel tax. At its 2010 Annual General Meeting held in Hay River last May, the NWT Association of Communities (NWTAC) adopted a resolution that called for the territorial government to grant municipalities, hotel associations, and/or similar organizations the legislative power to:

- impose a hotel room levy within their respective jurisdictions, and
- administer and allocate the revenues collected to fund their own tourism marketing and development initiatives.

Most provincial governments levy a hotel tax. Some provinces such as British Columbia, Manitoba, and Prince Edward Island also grant municipalities the authority to levy a municipal hotel room levy.

Besides the hotel tax in those jurisdictions, hotel guests may also be subject to a Destination Marketing Fee (DMF) imposed by a hotel or similar association. Unlike a hotel tax, which is compulsory, the DMF is an unlegislated activity based on voluntary participation by hoteliers and without government involvement.

4.2. Options to Implement a Hotel Tax in the NWT

Hotel taxes and levies are commonly viewed as a source of revenues to fund marketing and tourism promotion.

The more people visit the NWT, the more monies they pour into local economy. Promoting the NWT as a place to visit and live is a strategic initiative of the GNWT. In 2005, the Department of Industry, Tourism and Investment released *"Tourism 2010: A Tourism Plan for the Northwest Territories"* that outlined the investment and the steps taken by the GNWT to, among other goals, increase the number of visitors to the NWT. Since 2008, the GNWT has invested an average of $1.5 million per year for this plan.

<u>Option 1: Implement a municipal hotel room levy</u>

Granting a NWT municipality the legislative power to impose a hotel room levy would be consistent with the NWTAC's resolution. A municipality having this power would have a direct control on how the revenue from the levy would be spent; however, this option would not be without challenges:

- A majority of municipalities in the NWT are small with only one or two hotels/motels in operation (Table B3 in Appendix B). It would be expected that for these municipalities the revenue from their hotel room levy, net of related administrative costs, would be very small. For this reason, option 1 might be viable for only a few large tax-based municipalities such as Yellowknife.

- Many tour lodges operate outside municipal boundaries. They would not be obliged to collect the levy, but might enjoy the benefits of marketing efforts financed by others.

Option 2: Implement a territorial hotel tax

A territorial hotel tax could provide new revenues to be used in the promotion of the NWT as a tourism destination. There would be a single point of administration as the GNWT would collect the tax. This option, however, would not provide municipalities with the ability to raise revenue to fund their own tourism marketing activities in their communities. Alternatively, revenues from the tax could be shared with municipalities to assist them with their own marketing efforts.

Option 3: Implement a Destination Market Fee (DMF)

A hotel association, or a similar organization, could levy a DMF with no government involvement; however, participation in collecting the fee would be strictly on a voluntary basis. For this reason, this option might not create a level playing field for all. Non-participating hotel/motel operators could be competitively at an advantage, as they would not be obliged to collect the levy, but might still enjoy the marketing benefits created by others without bearing any cost.

Question for Consideration:

1. ***Should a hotel tax be introduced in the NWT?***
2. ***Should the tax be implemented territory-wide by the GNWT, or should municipalities be given the legislative power to impose this tax within their municipal boundaries?***
3. ***If a hotel tax is introduced, should restrictions be placed on the use of the revenues?***

5. Conclusion

Consideration has been given to many suggestions received during the 2008 and 2009 consultations on revenue options and tax mix, in relation to the values and vision of the 16th Legislative Assembly, and the criteria of sound tax policy.

This discussion paper suggests two specific revenue options for consideration:

- A revenue-neutral carbon tax to encourage residents and business reduce their consumption of fossil fuels in an effort to fight climate change. Revenues generated from the tax could be returned to residents and businesses through income tax reductions and credits.
- A hotel tax, whether implemented territorial-wide or at a municipal level, with the revenue generated being used to market the NWT tourism industry.

Our current tax system is similar to those in other provinces and territories, with some modifications to reflect the NWT conditions. The options presented in this discussion paper represent significant changes reflecting the opinions put forward at the public consultations, and support the vision of the 16th Legislative Assembly. However, as with any policy change, each has potential costs.

Your input is important. Please submit your comments:

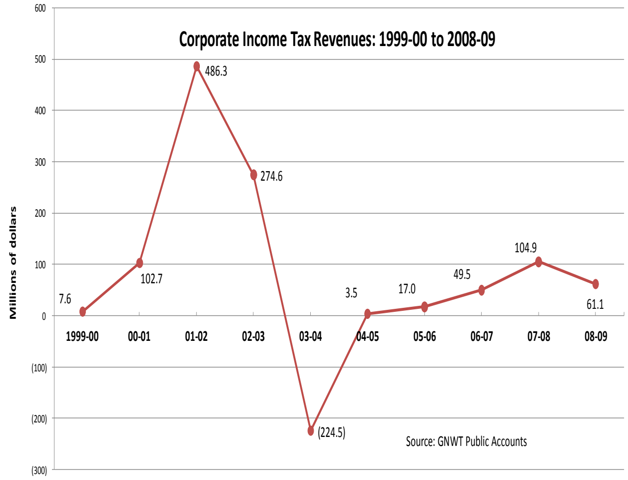
By mail to: Revenue Options Consultations
Fiscal Policy Division
Department of Finance, GNWT
PO Box 1320 – L5
YELLOWKNIFE NT X1A 2L9

Or by e-mail to: Revenue_Options@gov.nt.ca

This discussion paper is available on the Department of Finance's website at www.fin.gov.nt.ca, and can be translated into other official NWT languages upon request.

APPENDIX A – NWT Tax System

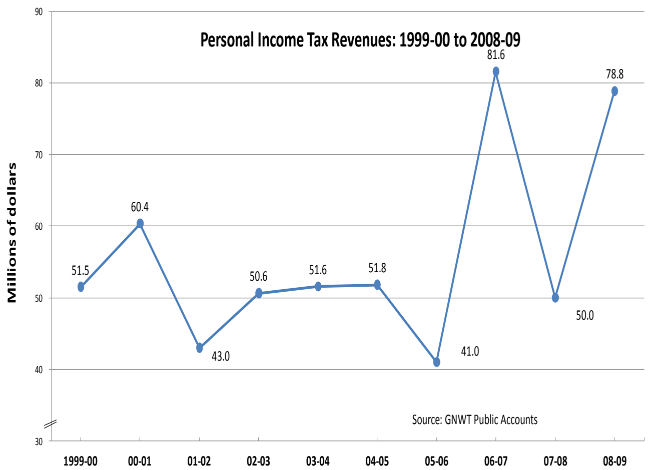
a. Corporate Income Tax (CIT)



The general tax rate for corporations is 11.5 per cent. For Canadian-controlled private corporations, taxable income up to $500,000 is taxed at a lower rate of 4 per cent. As the NWT economy is resource-based, corporate income tax mainly comes from the mining and oil & gas sector, and can fluctuate significantly from year to year depending on worldwide economic conditions, and the price for oil, gas, and minerals produced in the NWT.

Table B2 compares the 2010 corporate income tax rates across Canada.

b. Personal Income Tax (PIT)



The most recent tax rate changes occurred in 2005, where the two lowest rates were decreased and the two highest rates were increased. These changes were in response to an increase in the payroll tax from 1 per cent to 2 per cent.

For a given tax year, the GNWT receives the tax based on the federal estimate. Any adjustment to this estimate will be finalized fifteen months later, thus causing the PIT revenue fluctuate from year to year. For example, the 2005 tax revenue was significantly underestimated, and the GNWT received a final adjustment of more than $20 million in March 2007.

A tax filer is considered a resident of the NWT for income tax purposes if the individual lives in the territory on December 31 of a given tax year. Besides the federal income tax, the tax filer also pays territorial income tax based on his/her taxable income. A range of federal/territorial tax credits are available to offset the taxes owed.

The NWT has a progressive income tax structure, which imposes a proportionately lower tax burden on low-income earners and a proportionately higher tax burden on higher income earners. The NWT income tax regime is more progressive than the federal system and most provincial systems.

The following shows the NWT progressive tax rates for 2010:

- 5.9% on the first $37,106 of taxable income +
- 8.6% on the next $37,108 +
- 12.2% on the next $46,442 +
- 14.05% on the amount over $120,656.

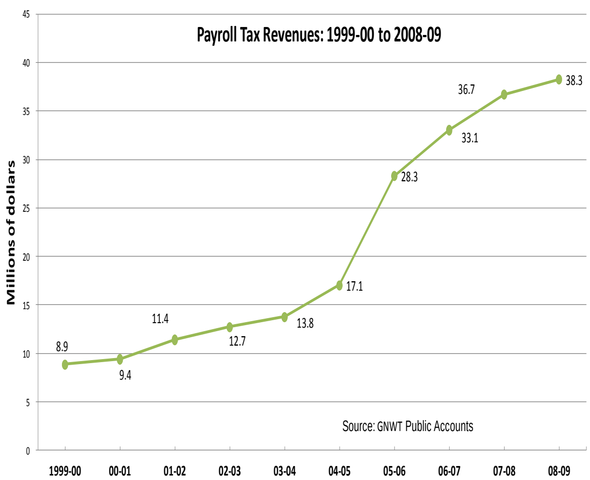
For example, an individual with a taxable income of $80,000 is subject to $6,068 in NWT income tax before credits, which is calculated as follows:

$37,106 at 5.9%:	$2,189
$37,108 at 8.6%:	3,191
$ 5,786 at 12.2%:	706
	$6,068

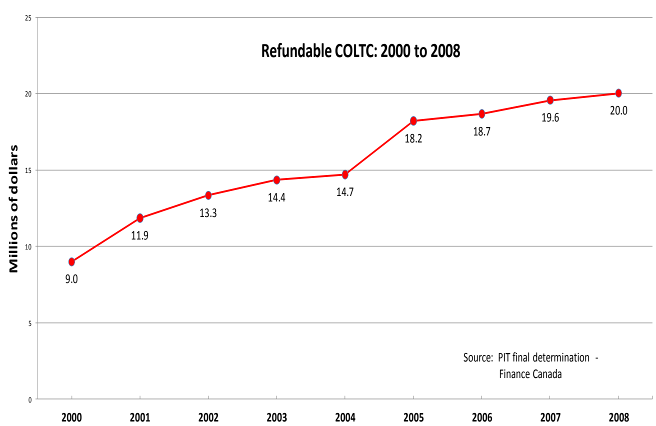
Table B1 compares the 2010 personal income tax rates across Canada.

c. Payroll Tax

Introduced in 1993, the payroll tax is intended to ensure all workers in the NWT, including non-resident employees, contribute to the cost of services provided by the government. The tax is based on employment income earned in the NWT and paid by the employee. The rate was increased from 1 per cent to the current 2 per cent in 2005.



d. Refundable Cost of Living Tax Credit (COLTC)



The COLTC was introduced in conjunction with the payroll tax in 1993 to partially offset the impact of this new tax. The credit has increased several times since 1993. The most recent change was in 2005 when the credit was raised in response to an increase in the payroll tax rate from 1 per cent to 2 per cent. The COLTC is currently capped at $942.

The COLTC is calculated as follows:

Adjusted Net Income (ANI)	Credit Amount
Less than $12,000	ANI x 2.60%
$12,001 to $48,000	$312+ 1.25%x(ANI-$12,000)
$48,000 to $66,000	$762+1%x(ANI-$48,000)
Over $66,000	$942

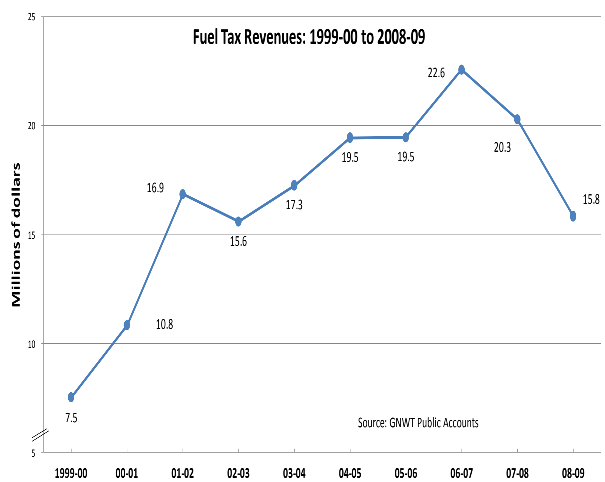
A cost of living supplement is also available to low-income couples or individuals aged 18 or over. For couples, only one person can claim the supplement. This extra credit ensures couples receive a minimum combined COLTC of $700. For individuals, the guaranteed minimum COLTC is $350.

e. Fuel Tax

NWT fuel tax rates have not changed since 1997. The current rates are:

Gasoline (on highway)(1)	10.7 ¢per litre
Gasoline (off highway)(1)	6.4 ¢ per litre
Diesel (motive)	9.1 ¢ per litre
Diesel (non-motive, other)(2)	3.1 ¢ per litre
Rail	11.4 ¢ per litre
Aviation	1.0 ¢ per litre

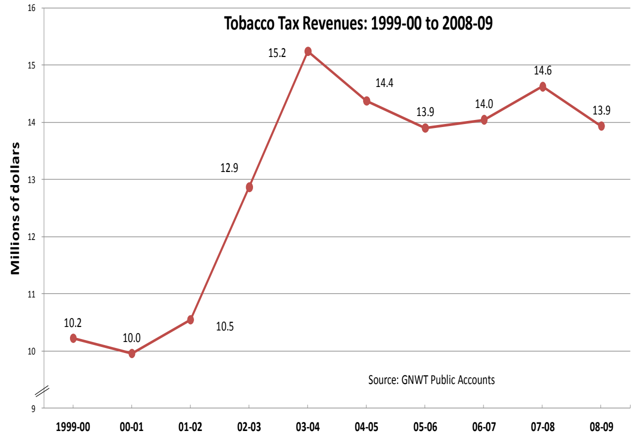
(1) on-highway refers to communities served by the NWT highway system. The off-highway rate applies in communities not served by the NWT's all-weather roads.
(2) applies to fuel used in stationary equipment, power generation etc.



The NWT gasoline and motive diesel tax rates are among the lowest in Canada. Heating fuel, propane, and natural gas are exempt from the fuel tax.

f. Tobacco Tax

The tobacco tax rates were adjusted on April 1, 2010 based on the quarterly survey of retail prices in Yellowknife.

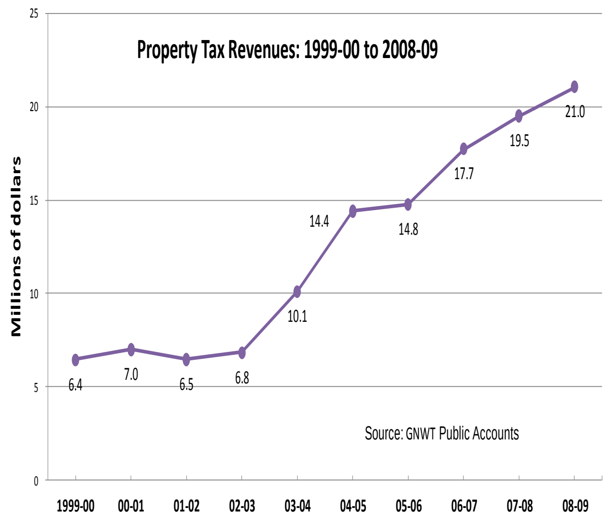


Current tobacco tax rates are:

Cigarettes:	$54.80/ carton
Cigarette Tobacco:	18.6 ¢/gram
Other Tobacco:	18.6 ¢ gram
Cigars:	75% of MSRP

The NWT cigarette tax rate is the highest in the country.

g. Property Tax



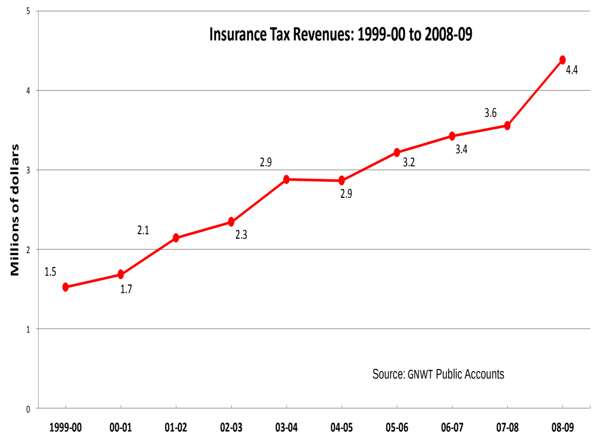
The GNWT collects property tax in non-tax based communities. Except Yellowknife, other tax-based communities (Fort Smith, Fort Simpson, Hay River, Inuvik and Norman Wells) collect the school tax on behalf of the government.

The Minister of Finance sets annual general mill rates for non-tax based communities as well as school mill rates for all communities outside Yellowknife. Under the "New Deal" for Community Governments, a non-tax-based community can request the Minister to increase its general mill rates as a way to raise revenue for the community.

The following shows the 2010 mill rates (2009 rates adjusted for inflation)

General Taxation Area	General Mill Rate
Class 3 (hydrocarbons)	10.20
Class 4 (mining)	9.06
Class 5 (pipeline)	21.14
Other classes	2.03
	School Mill Rate
General Taxation Area	1.88
Fort Simpson	2.44
Fort Smith	3.52
Hay River	2.25
Inuvik	3.59
Norman Wells	4.51

h. Insurance Tax



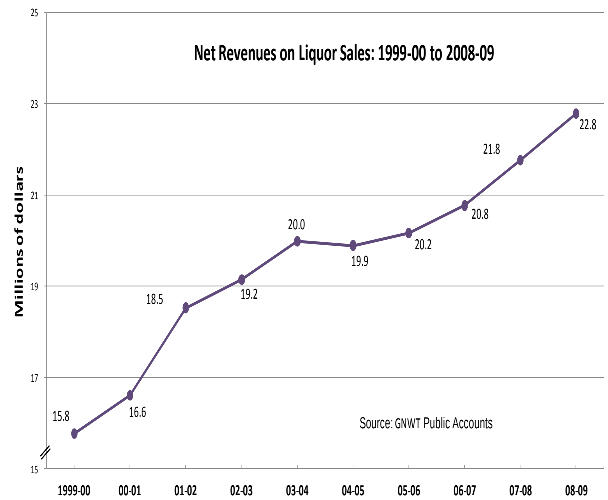
The GNWT levies a 3 per cent tax on all insurance premiums, and an additional 1 per cent on fire insurance premiums. The NWT rates are close to national averages.

i. Liquor Revenues

The NWT Liquor Commission controls sales and distribution of liquor products in the territory. Instead of a tax, prices are marked up, thus making it difficult for comparison with other jurisdictions. The mark-ups were increased by 10 per cent in 2009, and again adjusted for inflation on April 1, 2010.

The following shows the current mark-ups per litre volume:

Spirits	$28.58
Wine	$ 8.51
Beer	$ 2.11
Coolers	$ 3.32
Ciders	$ 2.18



APPENDIX B – Supplementary Tables

Table B1: 2010 Federal/Provincial/Territorial PIT Rates

	Taxable Income Brackets	PIT Rate (%)	Surtax %	Surtax Threshold
Federal	0 - $40,970	15		
	$40,970 - $81,941	22		
	$81,941 - $127,021	26		
	> $127,021	29		
Newfoundland and Labrador	0 - $31,278	7.7		
	$31,278 - $62,556	12.65		
	> $62,556	14.4		
Prince Edward Island	0 - $31,984	9.8	10	$12,500
	$31,984 - $63,969	13.8		
	> $63,969	16.7		
Nova Scotia	0 - $29,590	8.79		
	$29,590 - $59,180	14.95		
	$59,180 - $93,000	16.67		
	$93,000 - $150,000	17.5		
	> $150,000	21		
New Brunswick	0 - $36,421	9.3		
	$36,421 - $72,843	12.5		
	$72,843 - $118,427	13.3		
	> $118,427	14.3		
Ontario	0 - $37,106	5.05	20	$4,006
	$37,106 - $74,214	9.15	36	$5,127
	> $74,214	11.16		
Quebec	0 - $38,570	16		
	$38,570 – $77,140	20		
	> $77,140	24		
Manitoba	0 - $31,000	10.8		
	$31,000 - $67,000	12.75		
	> $67,000	17.4		
Saskatchewan	0 - $40,354	11		
	$40,354 - $115,297	13		
	> $115,297	15		
Alberta	Taxable income	10		
British Columbia	0 - $35,859	5.06		
	$35,859 - $71,719	7.7		
	$71,719 - $82,342	10.5		
	$82,342 - $99,987	12.29		
	> $99,987	14.7		
Yukon	0 - $40,970	7.04	5	$6,000
	$40,970 - $81,941	9.68		
	$81,941 - $127,021	11.44		
	> $127,021	12.76		
Northwest Territories	0 - $37,106	5.9		
	$37,106 - $74,214	8.6		
	$74,214 - $120,656	12.2		
	> $120,656	14.05		
Nunavut	0 - $39,065	4		
	$39,065 - $78,130	7		
	$78,130 - $127,021	9		
	> $127,021	11.5		

Table B2: 2010 Corporate Income Tax Rates

	General Rate	Small Business Rate	Business Limit
Federal[1]	18%	11%	$500,000
Newfoundland & Labrador	14%	4%	$500,000
Prince Edward Island	16%	1%	$500,000
Nova Scotia[2]	16%	5%	$400,000
New Brunswick[3]	11%	5%	$500,000
Ontario[4]	12%	4.5%	$500,000
Québec	11.9%	8%	$500,000
Manitoba[5]	12%	1%	$400,000
Saskatchewan	12%	4.5%	$500,000
Alberta	10%	3%	$500,000
British Columbia[6]	10.5%	2.5%	$500,000
Yukon	15%	4%	$400,000
Northwest Territories	11.5%	4%	$500,000
Nunavut	12%	4%	$500,000

Notes:
1. Federal general rates will decline to 16.5% on January 1, 2011 and 15% on January 1, 2012.
2. Nova Scotia's small business rate will fall to 4.5% on January 1, 2011.
3. New Brunswick's general rate will decline to 10% and to 8% on July 1, 2011 and July 1, 2012, respectively.
4. Ontario's general rate will be reduced to 11.5% effective July 1, 2011, 11% effective July 1, 2012 and 10% effective July 1, 2013.
5. Manitoba's small business rate will decline to zero effective December 1, 2010.
6. BC's general rate will fall to 10% on January 1, 2011.

Table B3: Accommodation Establishments in NWT Communities

Community	BB	Hotel	Motel	Apartment Suite	Subtotal
Aklavik	1	0	0	0	1
Behchoko	1	0	0	0	1
Colville Lake	2	0	0	0	2
Deline	0	1	0	0	1
Enterprise	0	0	1	0	1
Fort Good Hope	2	0	0	0	2
Fort Liard	1	0	1	0	2
Fort McPherson	0	2	1	0	3
Fort Providence	0	1	2	0	3
Fort Resolution	1	0	1	0	2
Fort Simpson	4	2	1	3	10
Fort Smith	1	1	0	0	2
Gameti	0	1	0	0	1
Hay River	2	3	2	0	7
Inuvik	2	4	1	2	9
Jean Marie River	1	0	0	0	1
Nahanni Butt	0	1	0	0	1
Norman Wells	0	4	0	0	4
Paulatuk	0	1	0	0	1
Sachs Harbour	1	0	0	0	1
Trout Lake	0	0	0	1	1
Tuktoyaktuk	2	0	0	0	2
Tulita	0	1	0	0	1
Ulukhaktok	0	2	0	0	2
Wekweeti	0	1	0	0	1
Whati	1	0	0	0	1
Yellowknife	8	7	2	5	22
	30	32	12	11	85

Source: www.spectacularNWT.com