

NORTHWEST TERRITORIES  
**Revenue Options 2008**  
**Report on Consultations**

Issued by the Honourable J. Michael Miltenberger  
Minister of Finance

December 2008



Kĩspin ki nitawih̄tĩn ā nih̄yawih̄k ōma ācimōwin, tipwēsinēn.

Cree

ᑭerih̄tł'is dēne sūliné yati t'a huts'elkēr xa beyéyati theᑭa ᑭat'e, nuwe ts'ēn yółti.

Chipewyan

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English

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Français

Jii gwandak izhii gin̄jik vat'atr'ijah̄ch'uu zh̄it yinoth̄an j̄i', diits'at ginoh̄kn̄i.

Gwich'in

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.

Inuinnaqtun

ᑕᑭᑭᑦ ᑎᑎᑭᑭᑦ ᑭᑭᑭᑭᑦ ᑭᑭᑭᑭᑦ ᑭᑭᑭᑭᑦ ᑭᑭᑭᑭᑦ ᑭᑭᑭᑭᑦ ᑭᑭᑭᑭᑦ.

Inuktitut

UVANITTUAQ ILITCHURISUKUPKU INUVIALUKTUN, QUQUAQLUTA.

Inuvialuktun

K'éhshó got'ine xadá k'é hederi ᑭed̄łhtl'é yeriniwē nídé dúle.

North Slavey

Edi gondi dehgeh̄ got'ie zhatié k'ḗ́́ edatł'éh enahddhē nide.

South Slavey

Tł̄ch̄o yati k'ḗ́́ dē wegodī wek'ēhoiᑭo nēw̄o dē, gots'ò goahde.

Tł̄ch̄o

## **Revenue Options 2008 – Report on Consultations**

### **INTRODUCTION**

In Budget 2008, the Government of the Northwest Territories (GNWT) committed to taking a number of measures necessary to restore fiscal sustainability, including the generation of new revenues starting in the 2009-10 fiscal year. This revenue will provide additional resources to fund important programs and services for Northerners. The Budget included a commitment to consult with NWT residents before any decisions were made about how additional revenues are to be raised.

Any tax or revenue-raising measure will affect the cost of living and doing business in the NWT. It is important that the revenue measures taken are consistent with the Legislative Assembly's long-term vision and overall goals and with sound tax policy.

On September 5, 2008, the Honourable J. Michael Miltenberger, Minister of Finance, launched the consultation process, inviting the public to provide their advice on how best to raise \$10 million in new revenues in the 2009-10 Budget and an additional \$30 million starting in 2010-11.

To help focus the discussion, the NWT Department of Finance released two discussion documents on the options available to the GNWT to increase revenues. Focussing on the GNWT's major current and potential revenue sources, the papers described the revenue options available to the GNWT. The options were discussed in terms of how they might help or hinder the achievement of the vision and goals of the 16th Legislative Assembly, the GNWT's strategic initiatives, and the principles of sound tax policy.

The primary objective of the tax system is to raise revenues to enable government to provide programs and services. A fair, efficient tax system provides the foundation for governments to deliver essential public services such as health care, education, police, and roads and to make the investments need to improve the quality of life for its citizens. However, making decisions about taxes presents a number of challenges for government. Increasing taxes will have consequences for those individuals, families, and businesses which pay the higher taxes. Even changes which don't increase the total amount of tax collected, but rather lower one tax and increase another, can have important consequences. In addition, measures designed to produce revenues that are

targeted at higher expenditures in a specific program area, don't necessarily address the government's fiscal challenge, since they don't allow resources to be deployed toward the highest priority areas.

The GNWT needs to balance its requirement for additional revenues to fund quality programs and services with the need to maintain a strong economy and a growing population. The government needs to take an approach that is well thought out in terms of its impact on residents, on the economy, on investment, and on the attractiveness of the NWT as a place to live.

This task will likely be more challenging given current global economic conditions and their expected impact on the NWT.

This report summarizes the outcomes of the revenue consultation, including both the discussions of the Roundtable session held in September and the written submissions provided by NWT organizations and residents.

## **MAKING CHANGES TO THE NWT TAX REGIME – WHAT DO WE WANT TO ACHIEVE?**

The NWT tax system should raise revenues to pay for government expenditures as fairly, efficiently and simply as possible.

The GNWT is looking at ways to increase revenues to help pay for programs and services, and to finance investments in infrastructure. However, the Government also wants to take a broader look at the NWT tax and revenue system, to see what policies and measures are available to advance the vision, goals and priorities of the 16<sup>th</sup> Legislative Assembly – a Northwest Territories where strong individuals, families and communities share the benefits and responsibilities of a unified, environmentally sustainable and prosperous territory.

Because the tax system is often expected to achieve a number of goals, some of which may be competing, it is important that the objectives of any restructuring be clear. The tax system needs to generate revenues for government – the amount, however, depends on the amount the government desires to spend. The more government needs or wants to spend, the more taxes it needs to raise.

The tax system is also used to achieve other goals. It is used to promote economic activity and growth. It is used to redistribute income from higher to lower income individuals and from one region to another. It is used to promote some activities, like saving for retirement or post-secondary education and to discourage other activities, such as tobacco or alcohol use.

The challenge for tax policy is to find the appropriate balance between:

- revenue needs, economic growth and environmental sustainability;
- income redistribution and incentives to work and live in the NWT; and

- businesses and individuals.

The revenue discussion paper outlined a number of ways that the GNWT could generate the additional revenues needed to finance ongoing public services and new investments. The options were considered using the following criteria:

- their revenue-raising potential;
- the extent to which they advance the vision, goals and priorities of the 16<sup>th</sup> Legislative Assembly;
- the impact they may have on the NWT economy, particularly the criteria described in the GNWT macroeconomic policy framework; and,
- the principles of sound tax policy.

The options were also considered in light of current trends in tax policy in Canada and internationally, in which certain types of taxation are viewed as more economically efficient than others. Most jurisdictions levy a number of different types of taxes, some targeted at how much individuals and businesses earn (income taxes) and others targeted at things people buy (consumption taxes). In addition, income taxes are usually structured so they help to redistribute income, by taxing those with greater earning power more than those at lower income levels. Many economists argue that taxing income too much is inefficient, as this type of taxation acts as a disincentive for people to seek higher paying employment and to save and invest. In the long run, this can mean less tax revenues available to governments to provide the programs and services its residents need. Consumption taxes, on the other hand, do not tax productive activity and encourage saving and investment.

One type of consumption tax that is receiving increasing support from economists is the carbon tax, on the grounds that this tax provides an economic incentive to reduce the carbon emissions that are contributing to climate change.

### ***Northwest Territories Fiscal Situation***

The GNWT is forecasting annual revenues of more than \$1.23 billion in 2008-09, growing at an average rate of 3.8 per cent annually to 2011-12, not including any new revenue increases in 2009-10 or future years. However, once capital spending is added to the GNWT expenditure base, the GNWT is still in a deficit position. While some borrowing for capital investments is acceptable, the expenditures required to replace aging infrastructure will push the GNWT into unsustainable debt without revenue increases and/or further reductions in expenditure growth for government programs and services.

The Government plans to address these demands on the spending and the revenue sides of the budget. The 2008 Budget outlined plans to manage these demands by

reallocating expenditures and capping future spending growth and by raising new revenues.

Because per capita spending needs in the NWT are far greater than the territory's per capita revenue raising capacity the GNWT depends on transfers from the federal government for over two-thirds of its revenues. The main federal transfer, Territorial Formula Financing, is designed to fill the gap between the GNWT's spending needs and revenue raising capacity. New Territorial Formula Financing arrangements put in place in 2007 will provide a predictable, principle-based funding source. Based on recent assurances from Canada, the GNWT expects that these arrangements will not change in the near future, but no additional revenues are expected. In fact, federal funding in several key areas, in particular health and housing, will sunset in 2009-10.

The GNWT generates approximately 20 per cent of its revenue needs from taxation. This small tax base, compared to spending needs, means that revenue measures have a relatively small impact compared with spending growth. This means that the GNWT is very reliant on federal transfers, funded by Canadian taxpayers in other jurisdictions. The NWT should be able to demonstrate that NWT residents and businesses contribute toward the cost of the programs and services in the territory in a way similar to residents in other provinces.

Any tax measure will affect either the cost of living or the cost of doing business in the NWT. The revenue measures undertaken must be consistent with the Legislative Assembly's overall goals and with sound tax policy.

### *Higher taxes versus higher revenues – the NWT Economy*

There are two ways the GNWT can increase its revenues: through economic and population growth, and through tax increases. Each has its advantages and disadvantages. The review of the NWT tax system provided an opportunity to look at both of these approaches.

The NWT continued to benefit from a healthy economy in 2007 and 2008. At 11.5 per cent, the growth in the NWT economy was the highest in Canada in 2007. This growth was driven primarily by the diamond mining sector. The NWT's three producing diamond mines contributed over \$1.2 billion, or over 31 per cent, to the territorial Gross Domestic Product in 2007.

Without economic growth, GNWT tax bases will not grow. The NWT's economic prospects, while continuing bright in the long term, face increased uncertainty in the short term. The global economic and financial crisis has changed the outlook for the resource sector. Lower commodity prices and less access to investment capital mean that resource companies are likely to reduce expenditures, leading to reduced economic activity in the NWT over the next few years. While existing production is likely to continue, it is very possible that investment in exploration or new mines could be delayed. These delays will lead to lower employment for residents, and to lower government tax revenue.

Revenue options can be examined on a number of fronts. Changes in the NWT tax system, whether rate changes or new taxes, can provide additional revenues. But other measures can also have an effect on revenues. For example, investments or policy changes that affect the NWT's population growth rate can affect future revenue growth through higher funding under Territorial Formula Financing. As well, new residents who are employed will pay taxes to the GNWT, generating further revenues. Costs associated with new residents will likely be less than the additional revenues as increased economies of scale are realized.

The GNWT can also consider changes to the tax system that increase taxes in one area and lower taxes in other areas in order to achieve economic, environmental or social goals. However, a change of this kind will not necessarily result in the additional revenues required by the government. Such a change would also not necessarily be neutral for every taxpayer. An example of this could be the introduction of a carbon tax, offset by income tax reductions. More of the tax on carbon-based fuels might be paid by residents who are heavily reliant on those products, whereas income tax cuts might benefit more those who use proportionately less fuel.

Tax initiatives should be examined through the lens of the GNWT's Macroeconomic Policy Framework.

#### **The GNWT Macroeconomic Policy Framework**

In 2007 the GNWT adopted a macroeconomic policy framework to help decision makers evaluate policy options. Some of the questions the framework asks include:

- What is the impact on the NWT economy and how does the measure contribute to NWT economic growth and diversification?
- What are the impacts on NWT regions and communities and how will communities' ability to respond to or take advantage of development improve?
- Does the initiative strengthen economic linkages in the NWT?
- Is the initiative likely to increase employment opportunities in the NWT?
- Will the initiative lower costs for NWT residents and businesses?
- What are the impacts on large and small businesses?
- Will the initiative have an impact on the environment?
- What are the expected tax revenues, and what are the direct and indirect costs to the government?

## REVENUE CONSULTATION RESULTS

### ***ROUNDTABLE RESULTS***

The Minister of Finance invited stakeholders representing a broad spectrum of NWT business, community and social groups to attend a “Roundtable on Revenue Options”. The forum took place on September 23 and 24, 2008. A list of the organizations invited to the forum is attached as Appendix A.

The purpose of the Roundtable was to:

- provide feedback to the Minister on the revenue options, including the effects of those options on specific sectors of society and the economy;
- promote an exchange of ideas among delegates;
- inform delegates about the tax revenues options available, the limitations and opportunities for growth;
- open lines of communication between the Minister and NWT based organizations; and
- enrich the public debate by ensuring that both government and delegates are better informed on the choices and impacts on the NWT and its residents.

The two-day Roundtable was divided into two parts:

- Part 1 – three panels representing business, government other than the GNWT, and non government organizations were established. Each panel was asked to identify ways that the GNWT could meet the GNWT’s \$40 million revenue target from the list of revenue initiatives provided in the background papers. At the end of Part 1 representatives from each panel drafted a short list for the Minister that identified areas of consensus, areas of majority agreement and areas of minority agreement. The panels were asked to consider three questions in evaluating the possible initiatives:
  - What measures would you recommend that the Government take to raise revenues from residents to meet revenue targets?
  - What measures would you recommend that the Government take to raise revenues from corporations?
  - Can you identify other innovative ways to raise revenues?
- Part 2 – all participants came together at one table to discuss what the longer term objectives for the NWT tax system should be and what, if any, policies the GNWT should pursue to increase revenues by growing the NWT economy and population.



## **Part 1: Panel Discussions**

The three panels put forward different recommendations with respect to the measures that government should be pursuing. The business group opposed tax increases and called on government to look first to controlling its costs. The non-government organizations looked at ways to increase revenues, but also at ways the government could be increasing its spending. The approach of the community government group fell somewhat between these two positions, but also looked for ways the GNWT could be partnering with other groups.

### **Non-government Organizations**

The non-government organization group framed their discussion within the following context. Principles and goals are important; particularly to make the link between tax revenues and where the revenue is spent. There was some concern that that the GNWT may be overstating its need for more revenue. There was acknowledgement that not all taxes were bad but that it was important that the revenue was targeted – liquor tax spent on liquor addictions, carbon tax to go to investments in alternative energy and energy conservation. There was also a concern that the GNWT may not be collecting all the tax revenue from the sources already being taxed.

The group noted that there especially needed to be consideration of the impact of taxes on low income people and noted that there was a cost to government for some tax measures; for example, introduction of a hotel tax will increase the cost of government travel. These principles went beyond the issue of raising revenues and the group suggested that the GNWT needed to address health issues of the current population before encouraging further population growth. In addition, the GNWT needed to use other policies and enforce the Socio-Economic Agreements instead of just the tax system to address the problem of fly in/fly out workers.

The group identified support for the following tax increases on residents:

- Personal Income tax – the group supported restructuring the personal income tax system to give a break to low/middle income earners and increase the number of tax brackets at the high income range.
- Consumption taxes – the group felt the government could raise another \$2.5 million from consumption taxes but noted that the money raised must be targeted to healthy choices and addiction programs.
- A carbon tax that could generate \$40 million was supported provided that there was a mechanism to reduce the impact on low/middle people, that seniors would be given a subsidy adjustment program to encourage reduction of carbon fuels through fossil fuel alternatives, and that there would be a direct link from the revenues generated and initiatives to reduce emissions and fossil fuel consumption. It was suggested that the carbon tax be introduced gradually over three years.

The group was not in support of a retail sales tax because it would increase the cost of living in the NWT.

The group identified support for the following tax increases on corporations:

- Increase the large corporate income tax rate to the national average but leave the small corporate rate unchanged.
- Introduce a resource tax and put it into a heritage fund.

Other ways to raise revenues suggested by the group included a junk food tax, car rental tax, hiring more tax auditors to collect the taxes owing, lower long-term health costs through a fitness incentive, and working more closely with non-government organizations to reduce competition for the same dollars.

### ***Business Group***

The business group was not in support of any new taxes or increases to existing taxes, noting that the cost of living was 30 per cent higher in Yellowknife than in Edmonton and even higher in other NWT communities. Instead, they proposed that the GNWT consider ways to lower cost to government and lower cost of government.

As a first step, the group called on the GNWT to initiate program reviews including a zero base budget review and both internal and Auditor General audits to determine if the GNWT was getting appropriate value for its operating expenditures.

To encourage real economic growth, the business group called for serious consideration of P3 projects, hydro development, privatizing some government operations and allowing Aboriginal governments to invest in the NWT Power Corporation.

The business group was also concerned about the decreasing NWT population and suggested that to encourage people to move to the NWT, the GNWT should consider:

- a relocation allowance, repayable over time,
- mortgage assistance for both new and existing residents,
- a Northern benefits allowance,
- making student financial assistance available immediately upon residency,
- focusing attention on immigrants, but balancing that with encouraging existing NWT residents to enter workforce,
- removing barriers to land ownership,
- instituting a labour mobility program to allow residents to access jobs outside their communities,
- increasing the payroll tax on non-residents (and investigating rebate options for NWT residents).

## **Community Government Group**

The community government group framed their discussion on revenue initiatives by establishing a set of principles: limiting the cost of living was important, maximizing federal revenues and programs should be considered, and GNWT should explore partnership investment with business, and work with Aboriginal and community governments through the New Deal before raising revenue.

The group was not in support of increasing revenues but given the question that was asked felt the least offensive taxes were the payroll tax, tobacco tax, liquor mark-ups, health insurance, and an airport improvement levy. The carbon tax would also be acceptable provided it targeted conservation.

Other ways to generate revenues were also discussed. The group felt more research was needed, including comparisons with other jurisdictions, modelling for the effect of taxes on the economy and exploring opportunities such as hydro.

### ***Part 2 - Roundtable General Discussion***

Part 2 of the Roundtable had all participants around the same table discussing the following specific issues.

1. The case for increasing tax revenues through economic growth.
  - What are the major opportunities for stimulating economic growth in the NWT?
  - What are the major constraints or barriers to economic growth?
  - What can the GNWT do to encourage investment in the NWT?
  - Is there anything government can do to strengthen the leverage of NWT “Birthright corporations” in securing equity positions in major industrial projects?
  - What can be done to ensure that non government organizations and non-profits are competitive in attracting front line workers?
  - Is there anything that can be done to ensure that the benefits of economic development are shared between the larger urban communities and the small and remote communities?
2. What are the best strategies for population growth?
  - Tax revenues are lost due to NWT wage earners filing in other jurisdictions.
  - Are there solutions to offset the higher costs of energy/cold climate to reduce the cost of living in the NWT?

## Some Observations and Remarks on the Roundtable, September 23 and 24, 2008

Dr. Ron Kneebone, Director, Institute for Advanced Policy Research and Professor, Department of Economics, University of Calgary, attended the Roundtable as an advisor. Below is a summary of some of his comments.

1. The restrictions on the GNWT's ability to raise own-source revenues are far greater than the restrictions faced by provinces and the relative insensitivity of revenues to economic conditions make some of the recommendations usually offered to a provincial government inappropriate. The small population base of the Territory means that the share of administrative costs as a fraction of new tax revenues is far greater than in more heavily populated jurisdictions and so while this consideration can be largely ignored elsewhere, it certainly cannot be ignored here and in fact, it is a very important consideration. The small population base also means that the opportunities for the private sector to provide certain goods and services at reasonable cost are also limited.
2. It is not unusual for a government to spend more than it collects in revenue. In fact, it is sometimes desirable that a government do so. When the economy slows, causing tax revenues to fall and the need for spending on income-sensitive programs such as social assistance to increase, it is good economic policy for the government to hold tax rates constant and social programs steady and so run a budget deficit. The alternative is to raise tax rates and/or cut social programs during an economic slowdown, which will make the slowdown even more severe. What is bad economic policy is to run a budget deficit even when economic conditions are strong, such as the current economic conditions in the NWT. This is not the time to be running a deficit; rather, it is probably a time to be running budget surpluses. So, kudos to the Ministry for recognizing it has a budget problem and for trying to take action to fix it.
3. What is wrong with a deficit? A deficit represents delayed taxes or delayed expenditure cuts. Choosing to postpone the difficult problem of what spending to cut or what tax rates to increase is not a solution. It is worse than that because each year these difficult decisions regarding which tax rates to increase or what expenditure programs to cut, the bigger is the pain that must eventually be endured. So, kudos to the GNWT not only for recognizing it has a budgeting problem but for proposing to take quick action to eliminate it.
4. Getting the level of taxes right is important for encouraging economic growth. If tax rates are set too high, they discourage firms from hiring workers, creating employment, and generating wealth. But setting tax rates too low is also harmful to economic growth. This is so because if tax rates are set too low then they generate too little revenue for governments to finance the provision of things like hospitals, roads, sewers, good schools, and all those other things that private firms rely upon when recruiting new employees. Taxpayers and private industry are partners in the creation of a society in which people want to live and work. Industry cannot thrive in a society without courts, laws, regulations, good schools, hospitals, police, etc and so industry has every incentive and obligation to contribute toward the provision of these things. Taxpayers, of course, need the jobs created by industry. Industry and taxpayers are partners, not adversaries.
5. I suggest that one principle of economics is that **Free Markets Are Usually a Good Way to Organize Economic Activity**. However, sometimes free markets organize economic activity a problematic and distasteful way. For example, we don't like the idea of private police forces patrolling the streets and so we don't leave that important function in the hands of private firms. Another principle is **Governments Can Sometimes Improve Market Outcomes**. Note the word "sometimes." Except on rare occasions free markets have proven to be the best way of organizing economic activity so as to maximize standards of living. *This has been proven time and time again in country after country after country.* Together, these two principles of economics indicate that whenever possible, the organization of economic behaviour should be left in the hands of private individuals and free markets. The private provision of goods and services should be the norm and the involvement of government in providing goods and services should be minimized to those rare instances when the free market solution yields unattractive outcomes. It is why economists generally support government provision of education, many types of health care, police, etc.
6. An oil executive has told me that he did not really care whether carbon taxes or cap and trade schemes were imposed so long as it was applied fairly, decided soon, and left alone once set. It is important to understand that it is generally unwise for a government to wait for firms to sink millions into a new mine or the development of a new oil or gas field and then change the tax or royalty regime governing the amount they must pay to the government. A government behaving in this way will find that few firms will ever invest in its jurisdiction again. This is not to say the Territorial government should not consider raising taxes charged to firms: it is only to say that great care should be done when doing so in order to not damage the reputation of the government as a fair partner in the creation of wealth and economic opportunity.
7. Finally, I heard a number of times at this Roundtable of the need for the government to offer a vision for the future. I agree and think the mission statement of any government should contain the following 3 statements:
  - The government will provide high-quality government services at minimum cost to citizens (Value for money).
  - The government will save the revenue from the taxation of non-renewable resources so that future generations may enjoy the same benefits of these resources as we (Intergenerational fairness and sustainable economy).
  - The government will avoid passing on to future generations the cost of providing goods and services enjoyed by the current generation (No operating deficits).

- What are the major opportunities for attracting growth?
- What role can immigration play in meeting critical skill shortages?
- What can be done to retain NWT residents schooled in the North?
- Are hiring quotas (targets) effective in ensuring that major resource companies hire locally?
- Can other non tax measures be taken to improve our competitiveness (for examples: training, relocation, and/or retention bonuses, housing ownership incentives)?
- Does the 2 weeks in 2 weeks out work schedule followed by the mines encourage or discourage workers to live in the South?

### *Encouraging Economic Growth*

The general discussion on how to encourage economic growth started with a discussion about non-renewable resource development, the main driver of the current NWT economy.

Industry representatives noted that if people want more resource development then the GNWT needed to pay attention to exploration, to work on the regulatory framework, and to develop the infrastructure needed to support development. Participants were advised that the diamond industry is contracting and exploration activity is decreasing.

Other participants asked why economic growth was being encouraged if the quality of life in the NWT wasn't improving.

In response, an example of the increased secondary education graduates in the community of Behchok̓ was cited. Three reasons were given for this success:

1. community leaders encouraged their residents to take advantage of mine employment opportunities because the traditional hunting and trapping industries were declining;
2. the education system was able to respond based on this leadership; and
3. there were job opportunities available that increased the value of an education.

Some participants wondered whether mining regulations were a problem for industry or whether the tension is a result of a system that gives local people some control over whether projects are approved. A view was expressed that the regulatory regime was built through consensus and the negotiation of land claims and problems may be associated with a lack of funding for the system as opposed to the system itself.

A number of participants highlighted the problems associated with rapid economic development, citing how local businesses had to compete with salaries paid by industry, particularly the diamond mining industry.

Other participants noted that the issue of land tenure was a disincentive to economic growth in such industries as agriculture.

### ***Government Investment – what investments should the GNWT make?***

When participants were asked what investments the GNWT should make to encourage economic growth the answer cited most often was that of training. However, it was noted that this is a challenge in a boom period as labour demand encourages students to drop out of school to take advantage of easy to find jobs. These individuals cost more when the jobs disappear.

It was also noted that Aboriginal development corporations have been successful in creating business and that the business community would benefit from partnerships with these Aboriginal corporations which have funds available for investment.

### ***Strategies for Population Growth***

The discussion on the best strategies for population growth started with whether population growth should be encouraged. This issue had been raised in the general discussions following Part 1 of the Roundtable. Some stakeholders were concerned that all the consequences of population growth are not understood. It was noted that increased immigration can increase the cost of living for existing residents (for example increasing the demand and therefore cost of housing). Some wondered if it wasn't better for some mine workers to reside outside the NWT since they pay the payroll tax and the government does not have to provide services, particularly if new population did not result in improved communities.

While others acknowledged population growth could have negative consequences, some suggested that these consequences would be mitigated if the barriers to people locating or remaining in the NWT were reduced. The reasons for people moving to the south (and it was noted that a lot were born here) were summed up as: the high cost of living, high cost of housing, lack of education opportunities (particularly higher education opportunities for spouses/children) and personal reasons such as caring for southern parents. It was felt that the GNWT should pursue policies to reduce the high cost of living and increase the supply of affordable housing as ways of encouraging population growth and helping current NWT residents.

Others stressed the need to sell the North as a great place to live. The positive aspects of life in the NWT, such as short commutes, lots of hockey ice time, and good student financial assistance, should be highlighted. Some participants proposed incentives to come North such as relocation bonuses. Others cautioned that such subsidies would end up being given to those coming anyway.

### ***Roundtable Panel Consensus***

Representatives from all three panels got together to discuss what they could agree on with respect to the Minister's question about how to raise an additional \$40 million in revenue. The representatives agreed that:

- The GNWT needs to confirm with NWT taxpayers that it has done everything to ensure that programs are operated efficiently and that the GNWT receives value for the dollars spent on programs.
- Revenue is only one side of the equation and more information was required on the expenditure needs and the impact of revenue initiatives.
- The GNWT should act more openly in partnerships with NGOs, business, and communities.
- The GNWT needs to focus on policies to reduce the cost of living and to reduce government costs, such as exploring the standardization of building designs.
- The GNWT needs to take a longer term view with respect to the prevention of health problems.
- The GNWT needs to take the lead in demonstrating ways to reduce the costs of construction through savings such as energy conservation.
- Economic growth may be a solution but the GNWT needs to be aware that the pace of development is important and make appropriate choices about the speed and type of development based on who benefits.
- Population growth may be a solution.
- The longer term vision should include a heritage fund for non-renewable resource economic rents.
- Introduction of a retail sales tax would be inappropriate due to concerns about the cost of living.
- A payroll tax may be an option if not detrimental to residents.

Finally, the Minister committed to repeat the Roundtable process the following year, broadening the scope of the discussions beyond revenues to include general budget issues.

### ***SUMMARY OF WRITTEN SUBMISSIONS***

The Department of Finance received 61 submissions from organizations and individuals responding to the Minister's call for input on how to raise additional revenues. These submissions included 39 emails, 15 letters and seven discussion papers, representing 42 individuals, 11 businesses, four non-profit organizations and four community governments. Appendix B lists the respondents who provided written submissions and Appendix C lists the individuals who responded with emails. A collection of the submissions and letters can be found on the Department of Finance website at [www.fin.gov.nt.ca](http://www.fin.gov.nt.ca) (emails are not included).

The general nature of many of the responses made it difficult to specifically read support or opposition to any specific tax increase. However, not surprisingly, half of the

respondents opposed increasing existing tax rates or introducing new taxes, citing concerns about the likely increase in the cost of living. A majority of respondents echoed the comments of the Roundtable participants and suggested that the GNWT focus on reducing program expenditures and improving operations before looking to increase revenues through taxation. Many submissions noted that if one of the GNWT's goals is to increase the NWT economy and encourage population growth, then raising taxes would be counterproductive.

There was some support, mostly from individuals, for specific tax increases including nine (out of the 61) respondents supporting increased tobacco and twelve respondents supporting increased liquor taxes. Most respondents who supported a payroll tax qualified this support by including either an increase in the cost of living tax credit or decreases in the personal income tax rates. The sales tax option was mentioned, although with very few in support (and then only in limited circumstances or at a very low rate). A resource mining tax received both support and opposition. Two of the submissions recommending a resource mining tax proposed that some or all of this revenue be put into a heritage fund. A carbon tax was also mentioned, again with receiving both support and opposition.

The following table summarizes the number of responses to specific taxes and other comments on the consultation.



## Summary of Revenue Options Responses

	Individuals		Business & industry		Non-profit sector		Government		Total responses		
Responses received:	42		11		4		4		61		
39 emails, 15 letters & 7 discussion papers	Support	Oppose	Support	Oppose	Support	Oppose	Support	Oppose	Support	Oppose	Total
Reduce GNWT spending/Improving operations	26	-	7	-	-	-	4	-	37	-	37
Privatise GNWT services	-	-	2	-	-	-	1	-	3	-	3
Cost of Living a concern	20	-	6	-	2	-	3	-	31	-	31
Penalize flyin-flyout workers	7	-	1	-	-	-	-	-	8	-	8
Increase federal funding	1	-	1	-	-	-	-	-	2	-	2
Pursue devolution/resource sharing	10	-	3	-	-	-	2	-	15	-	15
Increase tax base/incentives for in-migration	8	-	6	-	1	-	2	-	17	-	17
Justification for tax increases	6	-	-	-	-	-	-	-	6	-	6
Increasing infrastructure investment	1	-	3	-	-	-	-	-	4	-	4
Reducing regulation/streamlining regulatory process	1	-	3	-	-	-	-	-	4	-	4
Public consultation	2	-	1	-	2	-	-	-	5	-	5
General tax increases	1	18	-	8	1	1	-	3	2	30	32
Increases to current taxes									-	-	-
Personal income tax increase	-	7	-	3	-	-	1	-	1	10	11
Corporate income tax increase	2	-	-	5		1	-	-	2	6	8
Property tax increase	-	1	-	3	-	-	-	-	-	4	4
Fuel tax increase	1	4	-	4	1	1	-	-	2	9	11
Payroll tax increase	1	1	1	1	-	-	-	-	2	2	4
Payroll tax increase with offsets	5	-	2	-	2	-	-	-	9	-	9
Insurance tax increase	-	1	-	1	-	-	-	-	-	2	2
Tobacco tax increase	6	-	1	-	2	-	-	-	9	-	9
Liquor tax increase	9	-	1	-	2	-	-	-	12	-	12
Proposed new taxes											
Capital tax	-	-	-	5	2	-	-	-	2	5	7
Resource/Mining tax	1	-	-	4	2	-	-	-	3	4	7
Carbon tax	1	1	-	3	2	1	-	-	3	5	8
Road tax & tolls	2	1	-	4	1	-	-	-	3	5	8
Sales tax	2	9	-	3	-	2	-	-	2	14	16
Airport departure fee/tax	1	3	-	1	2	-	-	-	3	4	7
Hotel room tax	4	2	1	1	1	-	-	-	6	3	9
Health insurance premium	3	2	-	1	-	2	-	-	3	5	8
"Junk food" tax	2	-	-	-	-	-	-	-	2	-	2
New user fees	2	-	-	-	1	-	1	-	4	-	4

## NEXT STEPS

The consultations and information coming from both the Roundtable participants and submissions will be used to guide decisions about the changes to be included in the upcoming 2009 NWT Budget.

The GNWT will be making decisions about what tax and other revenue measures it will introduce for the 2009-10 fiscal year and what revenue measures would be proposed for future years. Changing economic circumstances have made these decisions more challenging, since tax increases during a period of economic slowdown can act as a further drag on economic growth. However, this challenge must be weighed against the government's need for revenues to finance programs and services required by NWT residents. The GNWT will also be reviewing the "mix" of taxes that it levies. Even if total tax revenues did not change, should the tax system be adjusted to reflect a different blend of income and consumption taxes? The government will be looking for input from MLAs and organizations such as those involved in the roundtable on this important issue.

The government will also be considering non-tax options for increasing its revenues over the longer term. These will include measures to encourage economic growth and to encourage more people to live in the NWT. This could include initiatives specifically designed to encourage in-migration, as well as measures directed at encouraging those who are already here to stay. Respondents to the consultation commented that tax measures that increase the already high cost of living in the NWT could deter people from moving to the NWT. The government will also be considering investments in lowering the cost of living for NWT residents, particularly the cost of energy.

Respondents clearly told the GNWT that it must also look at the expenditure side of the budget, and not just look for ways to increase taxes. The GNWT is doing this. The GNWT's *Refocusing Government* strategic initiative will target areas where the Government can be achieving better results, improving service delivery, organizing itself more effectively, or operating more efficiently and economically. The 2008 Budget announced the establishment of a Program Review Office which will conduct targeted reviews of GNWT programs to ensure that these programs are achieving their intended results in an effective and efficient manner. Substantial efforts have been made to improve the planning, acquisition and delivery of GNWT infrastructure. This includes making changes to the budgeting process to encourage more competition for government projects, introducing more stringent reviews of the scope of capital projects, implementing standardized designs where appropriate, and shifting focus to address deferred maintenance issues to extend the useful life of existing assets.

Addressing the GNWT's fiscal challenges will be an ongoing process, one that must be informed by changing economic and fiscal conditions as well as by the results of the work that is underway to review government spending.

## Appendices

### Appendix A September 23 – 24, 2008 Roundtable Participants

Alternatives North	NWT Council of Persons with Disabilities
Canadian Association of Petroleum Producers	NWT Federation of Labour
CGA Association of the NWT & Nunavut	NWT Seniors' Society
Ecology North	NWT Teachers' Association
Gwich'in Tribal Council	NWT Tourism
Inuvialuit Regional Corporation	Professor Ron Kneebone, University of Calgary
Native Women's Association of the NWT	Sahtu Dene Council
Northern Air Transport Association	Society of Management Accountants of the NWT
NWT & Nunavut Chamber of Mines	Status of Women Council of the NWT
NWT Association of Communities	Territorial Farmers Association
NWT Chamber of Commerce	Union of Northern Workers
NWT Construction Association	

### Appendix B List of Written Submissions

#### Businesses

Canadian Federation of Independent Business  
DeBeers Canada  
Diavik Diamond Mines Inc.  
Inuvialuit Regional Corporation  
Law Society of the Northwest Territories  
MGM Energy Corp.  
NWT Chamber of Commerce  
NWT Construction Association  
NWT & Nunavut Chamber of Mines  
Nunastar Properties Inc. (Owner of the Explorer Hotel)  
Yellowknife Chamber of Commerce

#### Community Groups

Alternatives North  
Ecology North  
Local Government Administrators of the NWT  
Union of Northern Workers (report by the Parkland Institute, with some caveats on recommendations)

#### Community Governments

Hamlet of Fort McPherson  
NWT Association of Communities  
Town of Inuvik

#### Individuals

D. Giovanetto  
Kris Johnson  
Jessica Mace  
Craig Yeo

### Appendix C List of Email Respondents

Marie Adams	Sam Jodi	Ernest Poliak
Wendy Bisaro on behalf of 8 constituents	Bob Johnson	Aaron Reid
Bill Braden	Dale & Linda Johnston	Jack Rowe
Bob Bromley on behalf of constituent	Alicia Korpach	Ed Sheppard
Bob Brooks	Jennifer Langevin	Janet Sian
Shane Collins	Gillian Burles	T. Boldt
Andy Couvrette	Teresa Long	Marcel Leguerrier
Lisa Empson	Tom Makepeace	Town of Norman Wells
Len Gal	David McCann	Dwayne Wohlgemuth
Mark Gill	Steve Meysing	Gordon Wray
Alex Hoechsmann	Cynthia Orlaw	