Government of Northwest Territories Gouvernement des Territoires du Nord-Ouest

BUDGET DIALOGUE 2021

REVENUE OPTIONS

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Kīspin ki nitawihtīn ē nīhīyawihk ōma ācimōwin, tipwāsinān.
Cree

Tłı̨chǫ yatı k’ę̀ę̀. Dı wegodı newǫ dè, gots’o gonede.
Tłı̨chǫ

ʔerıhtł’ís Dëne Sųłıné yatı t’a huts’elkër xa beyáyatı theʔą ʔat’e, nuwe ts’ën yółtı.
Chipewyan

Edı gondı dehgáh got’ı̨e zhatıé k’ę́ę́ edatł’éh enahddhę nıde naxets’ę́ edahłí.
South Slavey

K’áhshó got’ı̨ne xədə k’é hederı ʔedı̨htl’é yerınıwę nídé dúle.
North Slavey

Jii gwandak izhii ginjìk vat’atr’ijąhch’uu zhit yinohthan jì’, diits’àt ginohkhìi.
Gwich’in

Uvanittuaq ilitchurisukupku Inuvialuktun, ququaqluta.
Inuvialuktun

ᑖᒃᑯᐊ ᑎᑎᖅᑲᐃᑦ ᐱᔪᒪᒍᕕᒋᑦ ᐃᓄᒃᑎᑐᓕᖅᓯᒪᓗᑎᒃ, ᐅᕙᑦᑎᓐᓄᑦ ᐅᖄᓚᔪᓐᓇᖅᑐᑎᑦ.
Inuktitut

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.
Inuinnaqtun

Fiscal Policy: (867) 767-9158
Department of Finance

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Executive Summary

This paper examines the tax and other own source revenues that the Government of the Northwest Territories (GNWT) collects and provides options to generate additional revenues. All of the options presented have been considered in previous fiscal strategies but after due consideration the Northwest Territories tax system has remained largely unchanged because of concerns about the effect of increasing the tax burden on individuals and business and the resulting impact on the cost of living. If decision-makers chose to support specific revenue-raising options, further analysis would be required to ensure that decision-makers are provided with the information necessary to make a measured and balanced approach to increasing revenues that is consistent with the GNWT's long-term vision and goals.

Options are considered using the following criteria:

- revenue-raising potential – small tax bases limit the amount that can be raised through increased taxation, even if the options would not harm the economy;

- impact on the Northwest Territories economy – the territory's harsh climate, limited infrastructure and high transportation costs all contribute to high costs of living and doing business, which most tax increases will exacerbate; and

- compliance with principles of sound tax policy - the tax system should be as predictable, fair, efficient and simple as possible.

The timing of tax increases needs to consider the implications for the Northwest Territories economy. Currently, the Northwest Territories economy is not robust due to global economic and financial uncertainty. The resource-based nature of the Northwest Territories economy makes it extremely open, which means that the territorial economy is strongly linked to the global economy and world commodity prices. Both workers and capital can easily relocate to other provinces experiencing stronger economic growth.

While the GNWT's fiscal strategy includes the consideration of tax options, fiscal sustainability will not be achieved solely by increasing taxes on individuals and businesses. This would discourage business investment and hamper economic growth, leaving individuals and families with less disposable income at a time when the cost of living is rising.

Introduction

Increasing revenues is one option to address the fiscal challenge of not having enough revenues to address increasing demand for programs and services and to finance investments in infrastructure. The following paper examines the tax revenues the Government of the Northwest Territories (GNWT) collects and provides options to generate additional tax revenues. Many of the tax revenue projections under these options are determined as if all other things are unchanged. If decision-makers are supportive of specific options, further analysis would be required to test the sensitivity of the assumptions so that decision-makers are provided with the information necessary to make a measured and balanced approach to increasing revenues that is consistent with the GNWT's long-term vision and goals.

Fiscal Context for NWT Own-Source Revenue Options

The GNWT fiscal framework is based on the following facts:

- The majority (around 70 per cent) of GNWT revenues comes from the Territorial Formula Financing Grant from Canada and, therefore, growth in the Grant largely determines total revenue growth.

- The GNWT's tax bases are too small to fund GNWT program and service responsibilities, which is why Territorial Formula Financing is designed to cover the fiscal gap between GNWT own-source revenues and expenditure needs.

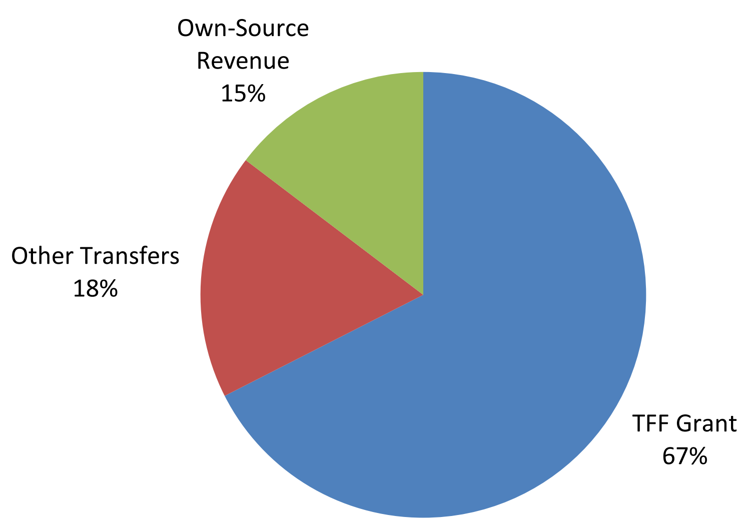
- The key variables in the Territorial Formula Financing Grant are the growth in NWT population relative to the Canadian population and the growth in provincial/local government expenditures. Growth in own-source revenues decreases Territorial Formula Financing by a corresponding but lesser amount and decreases in own-source revenues increase the Territorial Formula Financing Grant. The Grant entitlement is an estimate of the fiscal gap between what the GNWT needs to provide comparable levels of programs and services as the provinces to what it could raise at comparable levels of taxes, less a 30 per cent Economic Development Incentive discount. As economic growth shrinks the gap between expenditure need and the GNWT's ability to raise its own revenues, the Formula Financing Grant will decline but the Economic Development Incentive ensures that changes in own-source revenues are only partially offset under Territorial Formula Financing and the GNWT will benefit from developing its tax base and remain encouraged to grow the economy.

- Flat NWT population growth is the main reason for slower Territorial Formula Financing growth but high provincial expenditures will boost the Grant's growth in the near term and efforts to reduce debt in the wake of the pandemic will create a drag in the longer term.

- The slower revenue growth and a debt burden approaching the federally-imposed borrowing limit of $1.8 billion means expenditure growth must be carefully managed to ensure that the GNWT's fiscal framework is sustainable. Increasing expenditure growth combined with the declining revenue projection will squeeze operating surpluses. Operating surpluses are needed because at least half of capital investment is funded by these surpluses as required under the *Fiscal Responsibility Policy*. Expenditure management and/or sustained revenue increases will be necessary to ensure operating surpluses are available to have an effect on the infrastructure deficit.

GNWT own-source revenues are about 13 per cent of total revenue. Own-source revenues can be volatile from one year to the next, especially corporate income tax and resource revenues. The GNWT's small share of own-source revenues relative to total GNWT revenues means that while increases in tax rates or other charges will raise additional revenues the rate increases will not make a noticeable difference in revenue growth for the GNWT, but may make a disproportionate impact on those remitting taxes and fees.

Figure 1: GNWT Revenue Shares (2021/22, Total Revenue of $2.188 billion)



The tax base remains small enough that it warrants development to encourage its growth. An important component of economic development is a competitive tax regime. While new revenues can be raised by increasing taxes or introducing new fees, the type of tax or fee increase can have significant consequences for individuals, families, and businesses. Without careful thought and analysis before advocating a particular revenue increase, there is an increased risk of implementing an option that can hurt the economy, discourage investment, or even push people into leaving the territory.

Current NWT Own-Source Revenues

Current Tax Regime

The GNWT levies the following taxes on:

- individuals: personal income tax, payroll tax, and property tax;
- businesses: corporate income tax and property tax; and,
- consumption: fuel tax, carbon tax, tobacco tax, and insurance tax.

Under the *Coordinated Cannabis Taxation Agreement* with Canada, the Northwest Territories receives a share of the federal excise tax revenue on cannabis products destined for sale in the territory.

The Northwest Territories Liquor and Cannabis Commission applies mark-ups on alcoholic beverages and cannabis products through its control of distribution, pricing and sales in the territory.

Canadian Tax Rates Comparison

Table 1 compares tax rates for major revenue sources across Canadian jurisdictions. The Northwest Territories is close to the national average tax rate (weighted by population) for large corporation income tax and carbon tax (cap and trade provinces not considered); below the national average tax rate for personal income tax and fuel taxes; and, above the average for tobacco tax and the small business corporate income tax. The Northwest Territories does not have a sales tax due to concern about the territories' high cost of living.

Table 1: Provincial-Territorial Tax Rates – at May 3, 2021

	Combined Top Marginal Personal Income Tax [a] (%)	Retail Sales Tax (%)	Fuel Tax [b] Gasoline (¢/litre)	Fuel Tax [b] Diesel (¢/litre)	Carbon Tax [c] Gasoline (¢/litre)	Carbon Tax [c] Diesel (¢/litre)	Tobacco Tax [d] ($/carton)	Payroll Tax [e] (%)	Corporate Income Tax Small (%)	Corporate Income Tax Large (%)	Capital Tax on Financial Institutions [f] (%)
Northwest Territories	47.05	-	10.7	9.1	7.00	8.20	60.80	2.00	2.0	11.5	-
Nunavut	44.50	-	6.4	9.1	8.84	10.73	60.00	2.00	3.0	12.0	-
Yukon	48.00	-	6.2	7.2	8.84	10.73	62.00	-	-	12.0	-
British Columbia	53.50	7.0	14.5	15.0	9.96	11.71	59.00	1.95	2.0	12.0	-
Alberta	48.00	-	13.0	13.0	8.84	10.73	55.00	-	2.0	8.0	-
Saskatchewan	47.50	6.0	15.0	15.0	8.84	10.73	54.00	-	-	12.0	4.0
Manitoba	50.40	7.0	14.0	14.0	8.84	10.73	60.00	2.15	-	12.0	6.0
Ontario	53.53	8.0	14.7	14.3	8.84	10.73	36.95	1.95	3.2	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	-	-	29.80	4.26	3.2	11.5	1.25
New Brunswick	53.30	10.0	10.87	15.45	8.84	10.73	51.04	-	2.5	14.0	5.0
Nova Scotia	54.00	10.0	15.5	15.4	-	-	59.04	-	2.5	14.0	4.0
Prince Edward Island	51.37	10.0	8.47	14.15	8.84	10.73	55.04	-	2.0	16.0	5.0
Newfoundland & Labrador	51.30	10.0	14.5	16.5	6.63	8.05	59.00	2.00	3.0	15.0	6.0
Weighted average [g]	52.48	7.4	15.4	15.6	6.74	8.13	43.11	2.09	2.6	11.4	1.42

Notes:

(a) Combined federal-provincial/territorial highest 2021 personal income tax rate and surtax.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates do not include surtaxes that apply only in Victoria and the Lower Mainland. Quebec fuel tax rates also vary regionally.

(c) The federal backstop became effective April 1, 2019 in Manitoba, Ontario, Saskatchewan, and New Brunswick, July 1, 2019 in Nunavut and Yukon, and January 1, 2020 in Alberta. New Brunswick established its own carbon tax effective April 1, 2020. The Northwest Territories, British Columbia, Newfoundland & Labrador, and Prince Edward Island have provincially administered carbon taxes. Quebec and Nova Scotia have cap and trade systems. The NWT carbon tax came into effect September 1, 2019.

(d) Manitoba and Saskatchewan apply provincial sales tax to tobacco products. Harmonized Sales Tax is applied to tobacco products in Ontario, New Brunswick, Prince Edward Island, Newfoundland & Labrador, and Nova Scotia. British Columbia and Quebec do not apply sales tax to tobacco products.

(e) Nunavut and the NWT levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or rates that vary depending on payroll size.

(f) Ontario and Quebec levy capital taxes on life insurance corporations. Saskatchewan and Manitoba also levy capital tax on provincial crown corporations.

(g) Average weighted by provincial/territorial populations at July 1, 2020.

Taxes on Individuals

a. Personal Income Tax (PIT)

A tax filer is considered a resident of the NWT for territorial personal income tax purposes if the individual resided in the territory on December 31st of a given tax year. Personal income tax is levied on an individual's income after eligible deductions such as Retirement Savings Plan (RRSP) contributions, the Northern Residents Deduction and tax credits.

The NWT has a progressive income tax structure. The tax burden increases with an increase in income, reflecting the principle that the tax level should be based on a taxpayer's ability to pay. The progressive system applies higher tax rates to higher levels of taxable income, referred to as tax brackets. Tax brackets are adjusted annually by the change in the Canada Consumer Price Index (CPI).

Personal income tax rates are applied to taxable income, not total income. Taxable income is determined from total income in two steps as follows:

1. The individual determines their net income from total income by claiming certain deductions such as RRSP contribution, registered pension plan contribution, annual dues, child care expenses, allowable business investment loss.

2. The individual determines their taxable income from net income by claiming additional deductions. The allowable deductions in this step include northern residents deduction, non-capital losses and net capital losses carried over from other years.

There are circumstances where the deductions may reduce an individual's taxable income to zero and there are situations where a person with a high total income does not pay any personal income tax in a given year if this individual can deduct large prior-year investment or business losses against their current year's high net income.

NWT tax rates and brackets for 2021 are as follows:

- 5.9% on the first $44,396 of taxable income;
- 8.6% on the next $44,400 up to $88,796;
- 12.2% on the next $55,566 up to $144,362; and,
- 14.05% on taxable income over $144,362

The following example shows the calculation of 2021 net NWT personal income tax after deduction of credits for total income levels of $85,000 and $180,000. The effective tax rates are 6.4 per cent at $85,000 and 9.9 per cent at $180,000 before taking account of credits. After credits are deducted, the overall effective tax rates are 3.9 per cent and 8.3 per cent, respectively.

Employment income		$85,000				$180,000		
Less: Northern residents deduction		$8,030				$8,030		
Taxable income		$76,970				$171,970		
Tax bracket	Taxable income	Tax rate		Gross income tax	Taxable income	Tax rate		Gross income tax
$0 - $44,396	$44,396	5.90%		$2,619	$44,396	5.90%		$2,619
$44,369 - $88,796	$32,574	8.60%		$2,801	$44,400	8.60%		$3,818
$88,796 - $144,362	-	12.20%		-	$55,566	12.20%		$6,779
Over $144,362	-	14.05%		-	$27,608	14.05%		$3,879
	$76,970			$5,421	$171,970			$17,096
Effiective rate before credits			6.4%				9.9%	
Non-Refundable tax credits								
Basic personal amounts	$15,243				$15,243			
Canada Pension Plan contribitions	$3,166				$3,166			
Employment Insurance premiums	$890				$890			
	$19,299				$19,299			
Less: Non-Refundable tax credits	5.9%	x	($19,299) =	($1,139)	5.9%	x	($19,299) =	($1,139)
Less: Cost of living tax credit				($942)				($942)
Net income tax				$3,340				$15,015
Overall effective tax rate			3.9%				8.3%	

Table 2 shows the number of tax filers by tax year relative to the territorial population between 2010 and 2019. The 2019 count includes filers assessed as of December 31, 2020 only and does not include late filers.

Table 2: Number of NWT Tax Filers

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total tax filers	29,862	30,164	30,071	30,369	30,654	31,102	31,323	31,453	31,482	30,896
Total population	43,285	43,504	43,648	43,805	43,884	44,237	44,649	44,936	44,981	45,028
Aged over 14	34,023	34,365	34,573	34,765	34,862	35,152	35,564	35,802	35,859	35,957
Aged over 17	31,937	32,265	32,587	32,920	33,217	33,521	33,854	34,082	34,208	34,323
% Population that are tax filers	69.0%	69.3%	68.9%	69.3%	69.9%	70.3%	70.2%	70.0%	70.0%	68.6%
% Population aged over 14	87.8%	87.8%	87.0%	87.4%	87.9%	88.5%	88.1%	87.9%	87.8%	85.9%
% Population aged over 17	93.5%	93.5%	92.3%	92.3%	92.3%	92.8%	92.5%	92.3%	92.0%	90.0%

Table 3 shows the number of tax files by 2019 tax year total income range. More than one-half of NWT tax filers had **total income** less than $50,000 and 24 per cent had total incomes exceeding $100,000.

Table 3: NWT Tax Filers by Income Range – 2019 Tax Year

Total income range	Number of Tax Filers	Percentage
<= $0	96	0.3%
$1 - $50,000	15,614	50.5%
$50,000 - $100,000	7,785	25.2%
$100,000 - $150,000	5,283	17.1%
$150,000 - $250,000	1,786	5.8%
Over $250,000	332	1.1%
Total	30,896	100.0%

Personal income tax is the largest tax revenue source for the NWT, averaging $108 million annually over the past five years before accounting for two related expenditures: the territorial child benefit ($2.2 million) and the refundable cost of living tax credit ($22 million).

b. Payroll Tax

NWT payroll tax is levied at the rate of 2 per cent of employment income earned in the NWT. Unlike the progressive personal income tax, the payroll tax is a proportional tax because all taxpayers pay 2 per cent of their employment income regardless of the amount of employment income earned.

The payroll tax was introduced in 1993 at one per cent to capture tax revenues from non-resident (fly in/fly out) workers who work in the NWT but live outside the territory. Non-resident workers benefit from the NWT's high wages but do not contribute to GNWT personal income tax revenues that help pay for the programs and services necessary to support the businesses that employ them.

Non-resident Workers

- Non-resident or "fly-in/fly-out" workers are individuals who work in one province or territory, but reside in another.
- Each year non-resident workers fill between 5,000 and 8,000 NWT jobs and account for roughly one third of the NWT workforce.
- The non-resident workers fill many jobs not met by the resident workforce including seasonal, rotational, temporary and special projects. These workers are most commonly employed in the NWT's resource and construction industries, which account for two thirds of total earnings paid to non-resident workers.
- Large numbers of non-resident workers represent lost potential economic activity in the NWT, and lost tax revenue to the GNWT.
- Nearly one half of non-resident employees working in the NWT claim residency in either Alberta or British Columbia.

The GNWT collects an average of $42 million in payroll tax annually, of which about $10 million is paid by non-resident workers.

c. The Cost of Living Tax Credit

The refundable Cost of Living Tax Credit (COLTC) was introduced through the income tax system when the payroll tax was introduced. The COLTC is available to all NWT tax filers. The credit has increased several times since 1993, with the most recent change in 2005 in response to an increase in the payroll tax.

The maximum COLTC is $942. Low-income couples and individuals over the age of 18 are also eligible for a cost of living supplement. For couples, the minimum credit is $700 and only one person can claim the supplement. The minimum COLTC for single individuals is $350.

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

The COLTC costs the GNWT about $22 million annually.

d. Interjurisdictional Comparison of Personal Income Taxes

Table 1 shows the combined top federal and provincial/territorial marginal tax rates across jurisdictions. Compared to other provinces and territories, the NWT has the second lowest combined top personal income tax rate in Canada.

Since the NWT competes with Alberta for skilled workers, this province's personal income tax structure is of particular interest to the territory. Table 4 compares 2021 personal income tax brackets and rates between the two jurisdictions.

Table 4: PIT Tax Bracket & Rate Comparison – 2021 Tax Year

NWT		Alberta	
Taxable income brackets	Tax rate	Taxable income brackets	Tax rate
$0 - $44,396	5.9%	$0 - $131,220	10.0%
$44,396 - $88,796	8.6%	$131,220 - $157,464	12.0%
$88,796 - $144,362	12.2%	$157,464 - $209,952	13.0%
Over $144,362	14.1%	$209,952 - $314,928	14.0%
		Over $314,928	15.0%

Figure 2 and 3 compare 2021 personal income tax burden between NWT and Alberta single tax filers and one-income families at various employment income levels. The impact of the NWT payroll tax is factored into the calculation of the territorial tax burden. Calculations of NWT and Alberta tax use Zone A and Zone B Northern Residents Deductions, respectively.

Figure 2 shows that single tax filers would pay more NWT tax at income above $110,000 due to the impact of the 2% territorial payroll tax. Figure 2 shows that Alberta income tax burden is more favourable to one-income families at low incomes and at incomes over $110,000. Compared to the NWT, Alberta offers higher personal and spousal amounts ($19,369 vs $15,243 for 2021), a higher non-refundable personal credit rate (10% vs 5.9%), no payroll tax, and the generous Alberta Child and Family Benefit (ACFB).

Figure 2: 2019 Single Tax Filer Personal Income Tax Comparison - NWT & Alberta

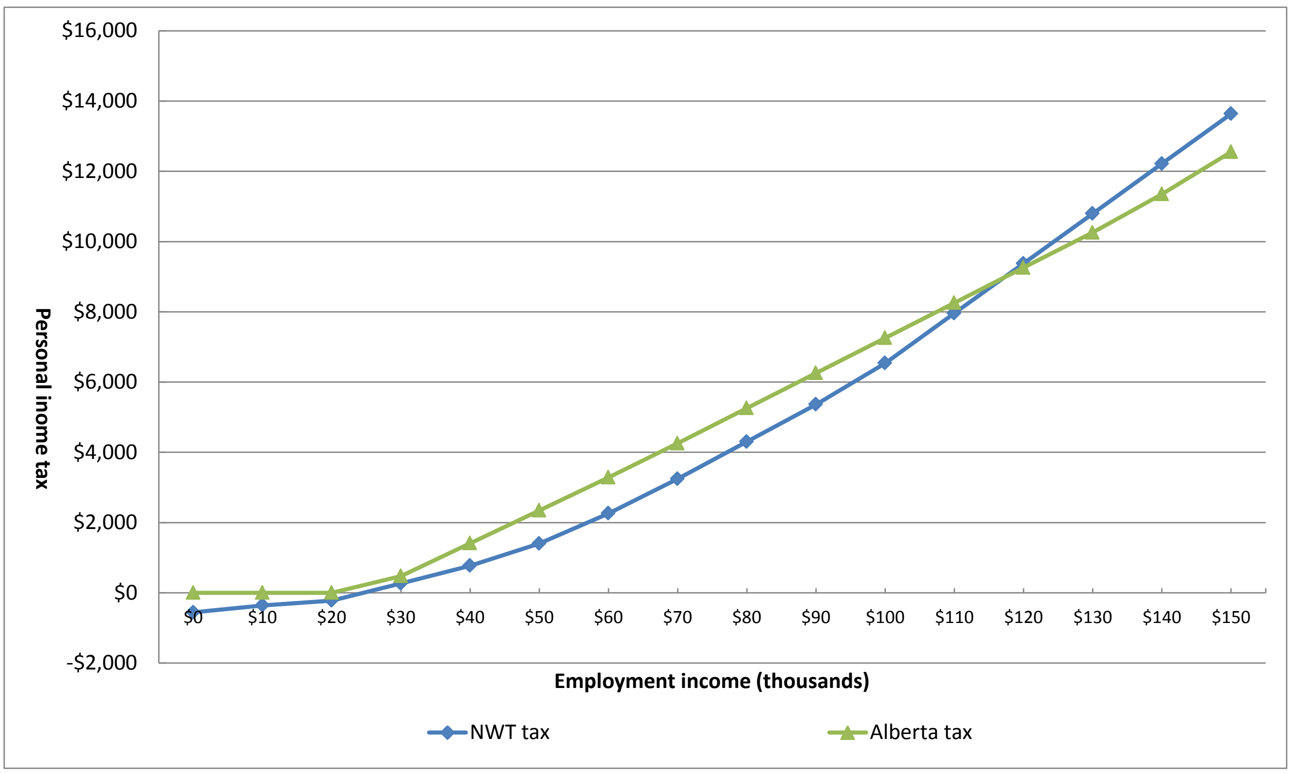
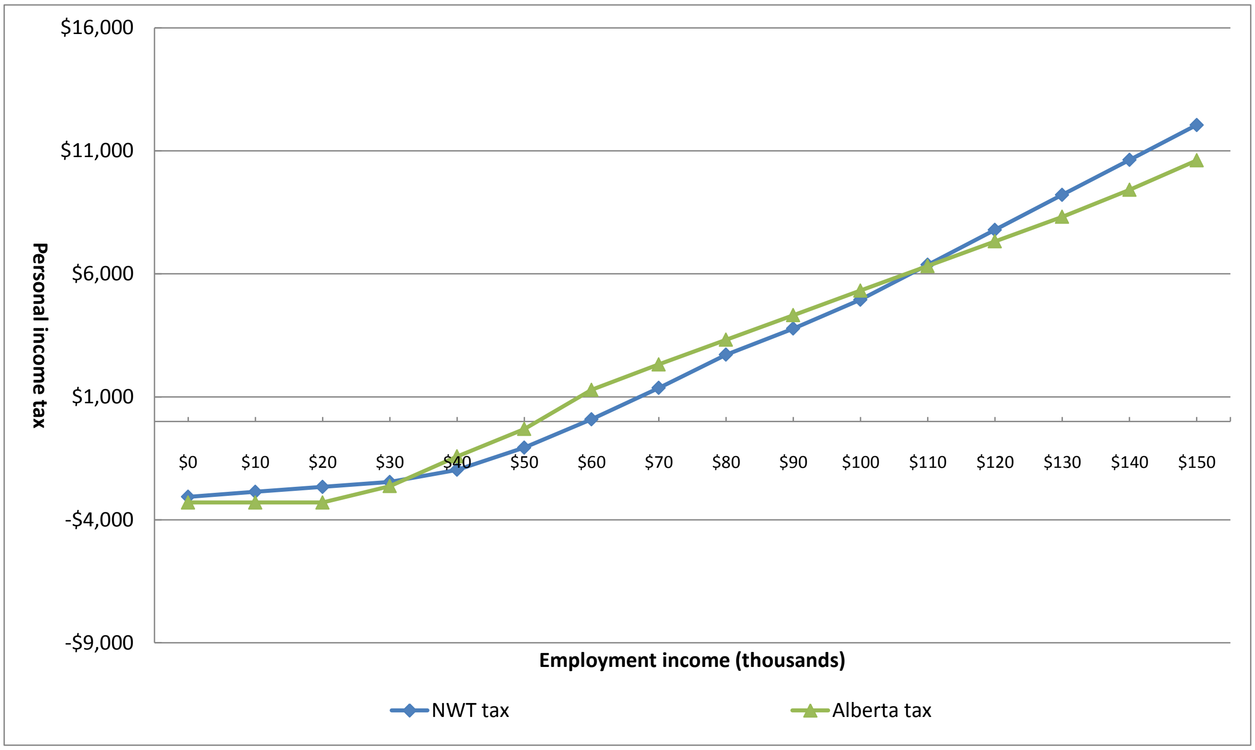


Figure 3: 2019 Single Income Family Personal Income Tax Comparison Including Payroll Tax, Cost of Living Offset & Child Benefits - NWT & Alberta



Taxes on Business

a. Corporate income tax (CIT)

The NWT levies two corporate income tax rates:

- a general tax rate of 11.5 per cent, and
- a small business rate of 2 per cent on taxable income up to $500,000 for Canadian controlled private corporations (CCPC) with capital assets under $15 million.

In accordance with the *Tax Collection Agreement* with Canada, the NWT uses the same definition of corporate taxable income as the federal government.

There are over 2,500 corporate tax filers in the NWT, 75 per cent of which are CCPCs. About 2 per cent of CCPCs are non-taxable corporations, which are typically municipal corporations and not-for-profit corporations.

Corporate income tax is an important, but volatile, revenue source for the GNWT. The territory's economy is resource-based and corporate income tax mainly comes from a few large companies in the mining, and oil and gas sectors. The profitability of these companies can fluctuate significantly from year-to-year depending on factors such as operating costs and global commodity prices. From 2014-15 to 2020-21, corporate income tax averaged $25.0 million but ranged from negative $8.8 million to $68.6 million. Negative revenue in 2018-19 was due to large prior year adjustments for corporate losses carried back and applied against previous profitable years. These loss carry backs exceeded the instalment payments received based on Finance Canada's estimates for the 2018 tax year.

Despite these fluctuations, on average a few large companies in the resource sector account for 80 per cent of NWT corporate income tax revenue. The remaining 20 per cent come from small businesses. About 75 per cent of NWT businesses are Canadian controlled private corporations, but 11 per cent of these businesses are subject to the general corporate tax rate, 35 per cent pay tax at the small business rate and the remaining 54 per cent do not pay any income tax. The last category includes taxable small businesses with no taxable income and exempt businesses such as incorporated charities.

NWT corporate income tax rates are comparable to those in other jurisdictions. The NWT's small business corporate income tax rate is below the national average while the territories' general corporate tax rate is slightly above the national average.

Other Taxes

a. Fuel tax

Fuel tax is levied on all fuels except propane, natural gas and heating fuel.

Unlike most provinces where fuel tax exemptions or rebates are available for fuel used off-road, the NWT fuel tax is based on how the fuel is used regardless of where it is used. The NWT remains one of the few jurisdictions in Canada that taxes fuel used in production in addition to fuel used in transportation. The NWT on-highway gasoline tax is ad valorem (17 per cent of the prescribed retail price) and the tax rates for all other fuels except aviation fuel are a percentage of the on-highway gasoline tax rate. The aviation fuel tax rate is set at one cent per litre.

The prescribed (set in regulations) retail on-highway gasoline price has not changed since 1997 and therefore the NWT fuel taxes have also not increased due to concerns about the impact of higher taxes on the territorial economy. NWT gasoline and motive diesel tax rates are comparable to those in other provinces and territories (Table 1).

Current fuel tax rates are shown in Table 5.

Table 5: NWT Fuel Tax Rates

	Factor[4]	Tax per litre
On-Highway gasoline[1]		$0.107
Off-Highway gasoline[2]	0.60	$0.064
Motive diesel	0.85	$0.910
Non-Motive diesel[3]	0.29	$0.031
Railway diesel	1.07	$0.114
Aviation		$0.010

[1] The on-highway tax rate applies in communities served by the NWT highway system.

[2] The off-highway rate applies in communities not served by NWT all-weather roads.

[3] The non-motive tax rate applies to fuel used in stationary equipment such as power generation and pumps.

[4] Section 2(1) of the Petroleum Products and Carbon Tax Act sets tax rates for off-highway gasoline, motive diesel, non-motive diesel, and railway diesel as the on-highway gasoline tax rate times the factor shown. The aviation fuel tax rate is set at 1 cent per litre.

b. Carbon Tax, Carbon Tax Rebates and Cost of Living Offset

The GNWT introduced a carbon tax effective September 1, 2019 to honour its carbon pricing commitments under the *Pan-Canadian Framework on Clean Growth and Climate Change*. Current and future tax rates by fuel type are shown in Table 6. By implementing a territorial carbon tax, the NWT has complete control over the design of its tax policy on climate change, the tax rate structure, and how the new revenue is used. This flexibility would not be available to the NWT under the federal backstop system.

The carbon tax exempts aviation fuel and fuel in a pre-packaged, factory-sealed container with a volume of 10 litres or less. Initial NWT carbon tax rates started at $20 per tonne greenhouse gas emissions for each type of fuel and rates will increase annually in step with carbon tax increases to $50 per tonne in July 2022.

Table 6: NWT Carbon Tax Rates

	Carbon Tax Rate			
Type of Fuel	September 1, 2019 to June 30, 2020	July 1, 2020 to June 30, 2021	July 1, 2021 to June 30, 2022	July 1, 2022 and thereafter
Aviation gasoline	exempt	exempt	exempt	exempt
Aviation jet fuel	exempt	exempt	exempt	exempt
Butane	$0.035 /L	$0.053 /L	$0.071 /L	$0.089 /L
Diesel	$0.055 /L	$0.082 /L	$0.109 /L	$0.137 /L
Gasoline	$0.047 /L	$0.070 /L	$0.094 /L	$0.117 /L
Naphtha	$0.051 /L	$0.077 /L	$0.102 /L	$0.128 /L
Natural gas	$0.038 /m^3	$0.058 /m^3	$0.077 /m^3	$0.096 /m^3
Propane	$0.031 /L	$0.046 /L	$0.062 /L	$0.077 /L

To reduce the effect of the carbon tax on residents and businesses, the NWT provides the following rebates to residents and businesses:

- Consumers who are not prescribed large emitters will receive a full rebate at the point of purchase on the carbon tax paid on heating fuel.
- Utility companies will receive a full rebate at the point of purchase on the carbon tax paid on fuel used in the production of electricity for their customers.
- Prescribed large emitters will receive a rebate equal to 72 per cent of the carbon tax paid and up to 12 per cent of carbon tax paid for investments in the NWT to reduce greenhouse gas emissions.

Besides rebates and emissions reduction grants, the NWT also offers residents and families the tax-free Cost of Living Offset (COLO) benefit. The COLO provides the same amount for each adult and child and is not based on family income and will increase as the carbon tax rate increases. The Canada Revenue Agency administers the COLO program on behalf of the GNWT. Annual benefit amounts for 2021-22 are $208 per adult aged 18 or over and $240 per child under the age of 18. The benefit is paid quarterly in July, October, January, and April.

c. Tobacco tax

Tobacco tax rates are shown in Table 7. The rates are set by the Minister of Finance based on *Quarterly Retail Price Survey* calculations described in regulation. The Minister may choose to not raise the tobacco tax rate, even though the quarterly retail price survey indicates that an increase or decrease is possible, but if the Minister chooses to raise tobacco tax rates they must be raised to the possible level prescribed by the price survey.

Table 7: Historical NWT Tobacco Tax Rates

	Current Tax Rate	April 1 2017	Feb 1 2014	July 1 2013	April 1 2011	April 1 2010	April 1 2009
Cigarette tax							
- per cigarette	$0.304	$0.304	$0.286	$0.286	$0.286	$0.274	$0.268
- per carton	$60.80	$60.80	$57.20	$57.20	$57.20	$54.80	$53.60
Loose tobacco tax							
- per gram	$0.272	$0.272	$0.266	$0.200	$0.188	$0.186	$0.192
- per 200 gram tin	$54.40	$54.40	$53.20	$40.00	$37.60	$37.20	$38.40
Cigars (% of suggested retail price)	75	75	75	75	75	75	75

The NWT has the second highest cigarette tax in Canada. Although recent price surveys permit tobacco taxes to be increased, tobacco taxes increases are infrequent due to concerns about potential smuggling into the territory.

Table 8 compares current provinces/territorial tobacco tax rates.

Table 8: Provincial/Territorial Tobacco Tax Rates

	NL	PE	NS	NB	QC	ON	MB
Cigarettes							
- per cigarette	$0.295	$0.275	$0.295	$0.255	$0.149	$0.185	$0.300
- per carton	$59.00	$55.04	$59.04	$51.04	$29.80	$36.95	$60.00
Loose tobacco							
- per gram	$0.500	$0.275	$0.400	$0.255	$0.149	$0.185	$0.455
- per 200 grams	$100.00	$55.04	$80.00	$51.04	$29.80	$36.95	$91.00
Cigars	125% of purchase price	75% of purchase price	75% of suggested retail price	75% of normal retail price	80% of taxable price	56.6% of taxable price	75% of retail price with $5.00 maximum

	SK	AB	BC	NU	NT	YK	Average
Cigarettes							
- per cigarette	$0.270	$0.275	$0.295	$0.300	$0.304	$0.310	$0.270
- per carton	$54.00	$55.00	$59.00	$60.00	$60.80	$62.00	$53.97
Loose tobacco							
- per gram	$0.270	$0.413	$0.395	$0.400	$0.272	$0.310	$0.329
- per 200 grams	$54.00	$82.50	$79.00	$80.00	$54.40	$62.00	$65.83
Cigars	100% of taxable value with $0.35 minimum & $5.00 maximum	142% of taxable price with $0.275 minimum & $8.61 maximum	90.5% of taxable or retail price to $7.00 maximum	140% of wholesale price	75% of suggested retail	130% of taxable price	

d. Property tax and school levies

The GNWT collects general property tax and education tax in the General Taxation Area (GTA) covering all non-tax based communities and the hinterland. Tax-based communities, or Municipal Taxing Authorities (MTA), are Yellowknife, Fort Smith, Fort Simpson, Hay River, Inuvik and Norman Wells. Outside Yellowknife, tax-based communities collect education tax on behalf of the GNWT. The City of Yellowknife collects education tax on behalf of the Yellowknife school boards.

The Minister of Finance sets annual general mill rates for the GTA and education mill rates for all communities except Yellowknife. Property tax mill rates are adjusted annually based on the change in the consumer price index for Yellowknife. Under the New Deal for Community Governments program established in 2005, a non-tax-based community may request the Minister to increase the community's general mill rates as a way to raise additional community revenue.

Table 9 shows 2021 general and education mill rates.

Table 9: 2021 Property Tax & Education Mill Rates

	General mill rate
General Taxation Area	
Class 3 - Hydrocarbons	10.13
Class 4 - Minerals	10.59
Class 5 - Pipelines	21.14
Other classes[1]	1.91
	Education mill rate
Municipal Taxation Areas	
Fort Simpson	2.05
Fort Smith	2.53
Hay River	2.27
Inuvik	2.93
Norman Wells	3.60
General Taxation Area	2.08

e. *Tourist Accommodation Tax*

The GNWT allows municipalities established under the *Cities, Town, and Villages Act* to levy a municipal hotel tax, provided that the revenues generated are used to support their tourism initiatives. The maximum tax rate that a municipality can impose is 4 per cent of the daily accommodation rate. Currently, none of these municipalities (Yellowknife, Inuvik, Norman Wells, Fort Smith, Fort Simpson, and Hay River) have passed by-laws to establish a municipal hotel tax in their community.

f. *Insurance tax*

The GNWT levies a 3 per cent tax on insurance premiums and an additional 1 per cent tax on fire insurance premiums. Insurance tax rates have not changed for over twenty years but are in line with the rates charged in other provinces (Table 10). Insurance tax accounts for 2 per cent of total GNWT annual tax revenues, averaging $5.4 million over the last five years.

Table 10: 2021 Canadian Insurance Premium & Fire Tax Rates

	Premium Tax		
Jurisdictior	Life, accident and sickness	Property and casualty	Fire [1] tax
Northwest Territories [2]	3%	3% or 4%	nil
Nunavut [2]	3%	3% or 4%	nil
Yukon [2]	2%	2% or 3%	nil
British Columbia	2%	4.4%	nil
Alberta	3%	4%	nil
Saskatchewan	3%	4%	1%
Manitoba	2%	3%	1.25%
Ontario [3]	2%	3% or 3.5%	nil
Quebec	3.48%	3.48%	nil
New Brunswick	2%	3%	1%
Nova Scotia	3%	4%	1.25%
Prince Edward Island	3.75%	4%	nil
Newfoundland	5%	5%	nil

Notes:

[1] Fire tax rates are levied under Fire Prevention Act or similar legislation of each jurisdiction.

[2] An additional 1% tax on fire insurance premium in the NWT, Yukon and Nunavut.

[3]Premium tax on property is 3.5% and on others is 3%.

Other Revenues

a. Liquor and Cannabis Mark-Ups

The NWT Liquor and Cannabis Commission controls distribution and sales of liquor and cannabis products in the territory. Instead of a tax, prices of liquor and cannabis products are marked up at rates determined by the Minister of Finance (Table 11). Liquor sales generate about $25 million for the GNWT annually, and their retail prices are among the highest in Canada. Price mark-ups have remained unchanged since 2012 due to concerns about increased prices encouraging more purchases from outside the territory.

Cannabis mark-ups are 34 per cent of the supplier price. Under the *Coordinated Cannabis Taxation Agreement* with Canada, the GNWT agreed to a mark-up that covers costs and a normal return so that prices would be competitive with the illegal market and discourage illegal sales. Currently there is little room to increase cannabis mark-ups for either revenue–raising or social policy objectives.

Table 11: Liquor Mark-ups

	Current	April 1 2012	April 1 2011	April 1 2010	April 1 2009
			(mark-up/litre)		
Spirits	$29.98	$29.98	$29.08	$28.59	$28.42
Wine	$8.92	$8.92	$8.65	$8.51	$8.46
Beer	$2.22	$2.22	$2.15	$2.11	$2.10
Coolers	$3.47	$3.47	$3.37	$3.32	$3.30
Cider	$2.29	$2.29	$2.22	$2.18	$2.17
Keg beer	$1.95	-	-	-	-

b. Resource Revenues

The GNWT collects royalties from the owner or the operator of a mine or from an oil and gas producer to compensate for natural resources extracted from the territory.

There are two royalty regimes for the resource sector. The mineral royalty regime that covers diamond mines is governed by the *Mining Regulations*, and the oil and gas royalty regime on onshore production is governed by the *Petroleum Resources Act* and *Petroleum Lands Royalty Regulations.*

Mineral and diamond royalties are profit-based and calculated on a mine basis as the value of the mine's output times the royalty rate on the graduated scale. For oil and gas, the royalty is calculated on a project basis, and the royalty payments can be taken in kind or value. Royalties are determined at a reduced rate of one per cent of gross revenue (total revenue received from the sale of petroleum produced less pipeline tolls, transportation and process allowances), with the rate increasing by one per cent every 18 months to a maximum of five per cent until capital expenditure payout occurs. After payout, the royalty rate is the maximum of five per cent of gross revenue or 30 per cent of net revenue (gross revenue less operating and capital costs and operating and capital cost adjustments).

The Northwest Territories mineral royalty regime is competitive relative to Canadian and comparable global jurisdictions.[1] In Canada, the Northwest Territories ranks the third-lowest at moderate and high diamond prices, and the sixth-lowest at low diamond prices. Internationally, the Northwest Territories appears to be in the low mid-range of comparable jurisdictions.

The GNWT collects non-renewable resource revenues from Northwest Territories public lands as part of the *Northwest Territories Lands and Resources Devolution Agreement,* effective April 1, 2014. Under the Agreement, the GNWT receives a "net fiscal benefit" of 50 per cent of resource revenues, subject to a cap equivalent to 5 per cent of the Territorial Formula Financing Gross Expenditure Base, which is not expected to be triggered in the foreseeable future. The GNWT also agreed to share up to 25 per cent of the net fiscal benefit with Northwest Territories Aboriginal organizations that are signatories to the Devolution Agreement.

c. Regulatory Revenues

The GNWT collects about $24 million annually in fees and licences, ranging from small fees for certificates to hundreds of dollars for industrial permits and licences. Fees are sometimes viewed by the public as taxes; however, fees are charged to offset the cost of providing specific services to users. If a fee does not have a reasonable relationship to the cost of the service provided, it might be considered a tax and, therefore, would be unlawful because it is being collected without enacted tax legislation.

d. Other Revenues

Other revenues comprise investment income and insured and third-party recoveries in several departments, including recoveries from other governments. These are generally not considered part of the tax base as they do not have applicable rates and therefore are not avenues for revenue options.

[1] Price Waterhouse Cooper, Tax and Royalty Benchmark, Draft Report August 2019

Considerations for Revenue Options

This section examines options for the GNWT to generate additional tax revenues through increasing tax rates or introducing new taxes. New revenues can also be raised by increasing the size of the territorial economy and population. This strategy is not discussed in this paper, partly because increased own-source revenue due to growth in tax bases is largely offset by decreases in Territorial Formula Financing entitlements (see box), and also because this strategy is already being implemented through existing economic development strategies.

Tax Policy and Objectives of the Tax System

While the main objective of taxes is to raise revenues to pay for government expenditures, the tax system is also used to achieve other objectives. For example, it is used to promote economic activity and growth, redistribute income from higher to lower income individuals, or from one region to another. Taxes can provide incentives to promote behavioural changes, such as saving for retirement or post-secondary education, and discouraging tobacco or alcohol use. Some of these objectives may compete against each other and must be carefully weighed against potential unintended consequences.

The tax system should be as predictable, fair, efficient, and simple as possible. The challenge for tax policy is to find the appropriate balance between:

- ***Expenditure needs to pay for programs and services and economic growth*** – the proper level of taxation is a critical component of good tax policy. If tax levels/rates are too low, there are not enough fiscal resources for the GNWT to pay for necessary programs and services and infrastructure, which harms economic growth as business relies on government to provide the environment that supports and promotes a healthy and skilled labour force and attracts investment. However, if tax rates are too high then businesses will not invest, will not hire people, and they will have less incentive to grow, with the result that the territorial economy suffers.

- ***Income redistribution and incentives to work and live in the Northwest Territories*** – the income tax structure currently used in all Canadian jurisdictions is designed to tax individuals based on their ability to pay so that the tax burden is less on those of lower incomes. Each jurisdiction must find this balance based on their circumstances. The Northwest Territories has a high cost of living and important industries provide their workers on rotation with free meals and accommodation at the work sites. These so-called "fly-in fly-out" workers do not reside in the territory during their off-days. The tax rates must therefore be set carefully to ensure that higher tax burdens on higher income earners do not become a disincentive to choosing to live and work in the territory. As technology changes, this consideration becomes especially important for skilled professionals who can offer services remotely.

- ***Businesses/industry and individuals*** – a strong NWT economy requires co-operation between industry and NWT residents. Industry requires workers to build their businesses and tax payers require industry to provide employment. Industry and residents rely on government to provide the programs and services that produce an NWT in which people want to live and work. This relationship means that individuals and industry must contribute revenues to pay for the government's expenditures that create the environment that supports a strong economy. Since investment capital is mobile and competition for business and labour is global, too high a tax burden on industry and labour will harm economic growth; on the other hand, industry and NWT residents must contribute to the government programs and services on which they rely.

Overlying the consideration of the appropriate balance is how much the government desires to spend. The more government needs or wants to spend, the more revenue it needs to raise.

The following describes the criteria the GNWT uses to evaluate tax rate changes or new taxes. Some principles may conflict with others and no single tax change will meet all objectives.

Taxes should raise sufficient revenues.

The primary objective of the tax system is to raise revenues so that the government is able to provide essential services. Taxes should raise revenue in a way that is as fair, efficient and simple as possible.

Revenue raising potential must also take into account tax implementation and administration costs.

Taxes should be fair.

A fair tax system levies taxes proportional to a taxpayer's ability to pay.

Taxpayers who have a similar ability to pay should have a similar tax burden. Those who have a greater ability to pay should bear a greater burden. Ability to pay is measured by income, adjusted to reflect varied family and personal circumstances and the costs of earning income.

Territorial Formula Financing and Own-Source Revenues

The GNWT has received the bulk of its revenues through Territorial Formula Financing (TFF) arrangements since 1985. The TFF Grant is based on a "gap-filling" principle and theoretically measures the difference between what the GNWT would need to spend to provide comparable levels of public services as the provinces and its ability to raise its own revenues at comparable levels of taxation:

TFF Grant *equals* Expenditure Requirements *minus* Revenue-Raising Ability

The GNWT's expenditure requirements are represented by a Gross Expenditure Base (GEB) which is a proxy for the fiscal resources required to deliver public services of similar quality to those in the provinces while taking into account the higher costs and needs in the North. The Gross Expenditure Base is escalated every year by the growth in provincial/territorial-local government spending, adjusted by the rate of population growth in the NWT compared to that of Canada. The escalator ensures that the Gross Expenditure Base grows at the same rate as total provincial/territorial-local per capita government expenditures.

The GNWT's revenue-raising ability takes into account the various revenue sources that the government has at its disposal to raise revenues, including taxes and fees, and measures how much the GNWT could raise from these sources if it levied the same taxes as the provinces at national average tax rates. This revenue-raising ability, referred to as Eligible Revenues, is a measure of what the GNWT could raise in tax revenues, whether or not it chooses to do so. An Economic Development Incentive is applied to Eligible Revenues, effectively excluding 30 per cent of Eligible Revenues from the Grant calculation. This is meant to provide a fiscal incentive for the GNWT to promote economic growth.

The combination of the revenues measured at national average tax rates and the Economic Development Incentive produce different rates at which each revenue source reduces the TFF Grant. Although the GNWT realizes an average net benefit from the growth of tax revenues of 30 per cent, the specific benefit depends on whether the GNWT tax rate is above or below the national average rate for a given tax base. If the GNWT lowers its tax rates below national average rates, the offset rate is more than 70 per cent, and can be more than 100 per cent if rates are significantly below the national average. The offset drops below 70 per cent when tax rates are above the national average.

Changes in NWT tax rates or types of taxes do not affect the national average tax rates. This means that revenue changes caused by changes in NWT tax rates do not change TFF entitlements.

It is sometimes suggested that governments can boost their tax revenues by lowering tax rates, based on the assumption that lower tax rates will encourage greater economic activity and therefore generate additional tax revenues. Although lower tax rates generally do benefit the economy, they will not necessarily lead to enough economic growth to increase total tax revenues. Even if total tax revenues increase, however, the interaction between tax revenues and the TFF must be considered, as it is possible for the GNWT to lose more in TFF revenue than it gains in tax revenue by lowering tax rates. In other words, a tax rate decrease must be able to provide enough of a tax base increase to counter the reduced revenue effect of the tax rate decrease.

Starting April 1, 2014, the GNWT collects the resource revenues on NWT public lands. Under the Devolution Agreement, 50 per cent of resource revenue, up to a cap of 5 per cent of the TFF Gross Expenditure Base (currently $91 million), is shared with the federal government through an offset to TFF and up to 25 per cent of the remainder is shared with Indigenous organizations that are signatories to the Devolution Agreement. The maximum the GNWT retains from resource revenues (net fiscal benefit) is 37.5 per cent, and nothing above a $91 million cap.

The tax system should be balanced.

Governments levy taxes from various sources to minimize the risk of "revenue shocks" when a major tax base experiences a substantial drop, and also to spread tax burdens across sectors of the economy and individuals. Changes to the tax system must take into account resulting shifts in the tax burden.

The tax system should be neutral.

An economically efficient tax system should influence a taxpayer's behaviour as little as possible. Decisions made based on tax considerations, rather than sound business or personal reasons, can cause distortions in the economy. However, in some cases, tax incentives may increase efficiency if they encourage activities which benefit society or activities which indirectly benefit the taxpayer.

Taxes may help promote government objectives.

Taxes may be used to promote economic, social or environmental goals, such as stimulating certain industries or regions, or encouraging or discouraging certain kinds of activities. For example, higher alcohol or tobacco taxes should lead to lower consumption. However, increases in tobacco taxes, for example, relative to those of other jurisdictions could increase illegal activities like smuggling and foster black market sales. For this reason all Canadian jurisdictions have agreed to coordinate cannabis taxation on cannabis sales with the goal to eliminate the black market.

The tax system should be simple.

The tax system should be simple and allow for easy compliance. The reason for exemptions, credits or other special measures should be weighed against the complexity they add to the system. Complex legislation may be necessary, but compliance by the taxpayer should be as easy as possible.

The NWT tax system should be competitive and predictable.

A tax system must be competitive with those in other jurisdictions. Most large corporations in the NWT operate in other provinces and in other countries, and many individuals, especially those at higher income levels, are mobile and can easily move within Canada. If the tax burden is too heavy, these corporations may transfer income and taxes outside the NWT or individuals may move to a jurisdiction with a lower tax rate, reducing the government's tax base and revenues. The cost of living and doing business in the NWT is high compared to southern jurisdictions, reducing the attractiveness of the territory as a place to live and invest. Higher taxes increase this relative disadvantage.

The tax system should also be stable. Changes should be infrequent and, where possible, should be predictable to the taxpayer.

Objectives of Fees and Charges

Fees are charged to offset the cost of providing specific services to users; however, fees are sometimes viewed by the public as taxes. If a fee is excessive and does not have a reasonable relationship to the cost of the service provided, it might be considered a tax and therefore unlawful as being collected without enacted legislation.

Objectives of a Royalty System

Royalties are payments for exclusive rights granted to the developer by the government to exploit Crown/government property (resources). The calculation of NWT royalty payments is based on the profits generated by each project. Royalties as payment for a resource exploitation privilege is what makes royalties fundamentally different from taxes. Taxes are imposed on taxpayers (individuals or business) and are compulsory payments to government to pay for government programs and services.

Resource project developers tend to view royalties as taxes and this perspective needs to be clearly understood by governments in designing their royalty systems. To industry, the royalty is part of the cost of the resource extraction, similar to operating costs and taxes. To the GNWT, as owner/manager of the resource, the royalty should represent the best price obtainable for the resource without compromising the viability of the purchaser to develop the resource. Industry wants to develop NWT resources to generate income and the GNWT wants resource development to provide employment, strengthen the economy and generate revenues in the form of both royalties and taxes to pay for government programs and services.

Although royalties are payments made in compensation for development rights and are not taxes, the considerations for designing good royalty and taxation systems are similar. Governments take into consideration the entire fiscal system including taxes and other levies and the level of government services provided to industry when designing royalty systems since these considerations bear on how much industry is prepared to pay for the resource.

Revenue Options

The revenue options are considered using the following criteria:

- revenue-raising potential;
- impact on the Northwest Territories economy, including the need to be competitive with other jurisdictions; and
- principles of sound tax and other fiscal policies.

There are many combinations of tax changes that can raise additional revenues for the GNWT, assuming these changes do not reduce the tax bases, through reduction in consumption or a slowdown in economic activity.

a. Personal Income Tax

Raising additional revenues from the personal income tax base could be achieved through tax rate increases and/or the introduction of a new top tax bracket and rate. Several jurisdictions have targeted high income earners by adding a fifth tax bracket and tax rate to their personal income tax regime (Table 12).

Based on the most recent 2019 tax filer data, about 1,300 NWT tax filers had taxable income exceeding the 2021 top tax bracket threshold of $144,362. If the Northwest Territories introduces a fifth tax bracket and rate targeting this high income group, the potential new revenues for the GNWT would range from $0.8 million to $3.5 million under a variety of scenarios (Table 13). The lower the top tax bracket threshold is set, the more tax filers would pay tax at the top tax rate.

Since personal income taxes are paid on taxable income and each individual's circumstances are different, it is not possible to determine who would be most affected by the addition of a higher tax bracket. However, the majority of individuals with taxable income over $180,000 derive most of their income from employment, allowing the conclusion that in general, individuals with high taxable income will be salaried professionals earning high wages but who have few deductions. Sole proprietors may have high total incomes in a given year but may deducting losses from previous years that lower taxable income.

Table 12: Personal Income Tax Bracket & Rate Changes Since 2010

	Year effective	Number of tax brackets: Previous	Number of tax brackets: Current	Previous: Top bracket tax rate	Previous: Top bracket threshold	2021 Tax year: Top bracket tax rate	2021 Tax year: Top bracket threshold
Alberta[1]	2016	Not applicable	5	10.00%	Not applicable	15.00%	$314,928
British Columbia[2]	2020	6	7	16.80%	$153,900	20.50%	$222,420
New Brunswick	2015	6	5	25.75%	$250,000	20.30%	$162,383
Newfoundland & Labrador[3]	2015	3	5	13.30%	$68,508	18.30%	$190,363
Nova Scotia[4]	2010	4	5	17.50%	$93,000	21.00%	$150,000
Ontario[5]	2014	4	5	13.16%	$509,000	13.16%	$220,000
Yukon[6]	2015	4	5	12.76%	$136,270	15.00%	$500,000
Federal	2016	4	5	29.00%	$138,586	33.00%	$216,511

Notes:

1. Before 2015 Alberta had a 10 per cent flat tax rate regardless of taxable income level. Graduated tax rates were introduced in 2015 with an 11.25 per cent top tax rate. The top tax rate increased to 15 per cent in 2016.

2. British Columbia introduced a sixth high income tax bracket for the 2014 and 2015 tax years before reverting to five backets in 2016. Sixth and seventh high income brackets were added in 2018 and 2020, respectively.

3. Between 2016 and 2019 Newfoundland and Labrador applied the 10 per cent Temporary Deficit Reduction Levy which could add 10 per cent to the marginal tax rate at various levels of taxable income over $50,000.

3. Prior to the 2010 tax year a surtax of 10 per cent was applied to Nova Scotia tax exceeding $10,000. The surtax was eliminated in 2010.

4. Ontario applies a surtax to high income earners. Surtax rates for 2020 are 20 per cent of Ontario tax greater than $4,874 and an additional 36 per cent of Ontario tax greater than $6,237.

5. Yukon's surtax was eliminated in 2015. The 2014 Yukon surtax was 5 per cent of Yukon tax over $6,000.

Table 13: New Top NWT Personal Income Tax Bracket Potential Revenue

New top tax rate	New top bracket threshold: $180,000	$200,000	$220,000
	(millions)		
16%	1.2	1.0	0.8
18%	2.3	1.9	1.7
20%	3.5	3.0	2.5
Tax Filers with Taxable Income above threshold	570	420	300

Source: NWT Finance. Revenue estimates based on 2019 data.

b. *Corporate Income Tax*

The NWT's 11.5 per cent general corporate income tax rate is close to the average among provinces and territories (Table 1 and the following table).

	NT	NU	YT	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
General rate (%)	11.5	12.0	12.0	12.0	8.0	12.0	12.0	11.5	11.5	14.0	14.0	16.0	15.0
Small business rate (%)	2.0	3.0	0	2.0	2.0	0	0	3.2	3.2	2.5	2.5	2.0	3.0

It is difficult to estimate what an increase in the tax rate for large corporations could raise because it would depend on the resulting corporate behaviour. If the NWT tax rate is not competitive with other jurisdictions it could encourage companies to allocate income outside the NWT under the rules negotiated under the tax collection agreements and set out in federal *Income Tax Regulations*.

Corporations that operate in more than one province or territory must allocate their income according to a formula set out in the federal *Income Tax Regulations*. The allocation is based on where a corporation's employees are located (wages and salaries paid) and where its sales take place (revenues). There are different formulas for some types of corporations, such as financial institutions, transportation companies and pipelines. Low tax rates may encourage companies to structure their affairs to allocate their income, particularly investment income, to the low tax rate jurisdiction. This change can be accomplished relatively easily, though there would be little or no increase in economic activity or employment in the jurisdiction. Similarly, a high rate may encourage companies to allocate income outside the jurisdiction.

If corporate behaviour is assumed not to change with a tax rate increase and profitably remains the same, based on recent levels of corporate taxable income a one percentage point increase in the tax rate for large corporations could raise about $3 million per year in additional revenues. This assumes no shift in the allocation of income to outside the NWT. However, in the current economic environment, there is no guarantee that additional revenue would be generated because low commodity prices are creating corporate losses for a number of large NWT corporate tax payers, which means that they are not generating income tax.

The NWT's January 2021 small business tax rate reduction from 4 per cent to 2 per cent is expected to reduce GNWT tax revenue by $1.4 million but the change will benefit only a small number of firms since about 55 per cent of NWT companies eligible for the small business rate typically pay no corporate income tax. Reducing the small business rate is done to encourage small businesses to invest more in their businesses but directly measuring the success of this objective will be difficult. Another consideration in reducing the small business rate is that small business owners can take advantage of generous business deduction claims such as the use of company vehicles and allocations of home-related expenses to a home-based business. The small business tax burden must be balanced with the tax burden of other NWT tax payers.

c. Introduction of a Territorial Sales Tax

Table 14 shows current federal and provincial sales tax rates in Canada. The Harmonized Sales Tax (HST) is the combined Goods and services Tax (GST) and Provincial Sales Tax (PST) in five participating provinces, and is administered by the Canada Revenue Agency. British Columbia, Saskatchewan, Manitoba, and Quebec administer their own PST. Alberta and the three territories do not have their own sales tax and their residents are only subject to the federal GST on their purchases of taxable goods and services.

Under the federal *Excise Tax Act*, consumers do not pay the GST/HST when purchasing goods and services listed in Schedule V (exempt supplies) or Schedule VI (zero-rated supplies):

- Exempt supplies mean that the producer of the goods or services cannot get a refund of the GST paid on goods and services used to produce the good or service. Include in exempt supplies are health care services, course fees, and sales of used residential housing, long-term residential rentals, and bridge tolls. Exempt supplies will have some tax embedded in the price of the good or service.

- Zero-rated supplies mean producers of these goods or services can claim input tax credit on the GST paid to produce these supplies. Zero-rated supplies include prescription drugs, medical devices, basic groceries, and exports.

Table 14: GST, HST, and Provincial Territorial Sales Tax

									Harmonized PST				
	NT	YT	NU	AB	BC	SK	MB	QC	ON	PE	NS	NB	NL
							(percent)						
GST	5	5	5	5	5	5	5	5	5	5	5	5	5
PST	-	-	-	-	7	6	7	9.98	8	10	10	10	10
HST	-	-	-	-	-	-	-	-	13	15	15	15	15

The NWT could introduce a territorial sales tax to raise new revenues. An NWT sales tax harmonised with the federal GST would be the most effective approach because a common tax base would:

- keep compliance costs unchanged for businesses;
- use the existing federal structure of GST rebates for low-income residents and public service bodies' rebates for qualified non-profit organizations; and
- minimise the GNWT's administration costs since the Canada Revenue Agency would administer the tax on behalf of the GNWT.

The GST was reduced from 7 per cent to 6 per cent in 2006 and to the current 5 per cent in 2008. Filling this tax room with a 2 per cent territorial sales tax would generate about $20 million annually for the GNWT, based on the estimated $50 million in GST collected in the territory annually by Canada. Each additional one per cent tax rate increase would generate an extra $10 million. The estimated new revenue assumes no change in consumer behavior as a result of the tax effect on retail prices.

The NWT territorial sales tax harmonized with the federal GST, or the HST, would affect residents, non-profit organizations, and small businesses that choose not to be HST registrants. Other businesses can claim input tax credits for the HST paid on their business expenditures. A 2 per cent sales tax would increase the general consumer price level by about 1.4 per cent given that 30 per cent of NWT household spending is on exempt or zero-rated goods.

The GNWT could alleviate the impact of the new tax by:

- providing tax-free rebates for low income residents through the income tax system and public sector bodies' rebates for qualified non-profit organizations, in the same manner as federal GST rebates;
- providing point-of-sale rebates on specific items such as heating fuel similar to those offered by some participating provinces. For example, Prince Edward Island established a point-of-sale rebate of the 9 per cent provincial component of the HST paid on heating fuel, children's clothing, children's shoes and books. With a 2 per cent sales tax, a full rebate on heating fuel would reduce the new GNWT revenue by $2 million.

d. Fuel Taxes

Fuel taxes, with the exception of aviation fuel, are based on the gasoline tax rate. An increase to the on-highway gasoline tax rate of one cent per litre would raise about $1.8 million in total fuel tax revenues. An increase in the aviation fuel tax of one cent per litre would double the tax rate and raise an additional $500,000.

The total of fuel tax and carbon tax will increase over time due to the NWT carbon tax introduced September 1, 2019; however, the carbon tax was not intended to raise revenues for general operations and the majority of carbon tax revenue is returned to tax payers through rebates and grants. Remaining revenues are invested in greenhouse gas reducing investments.

e. Payroll tax

Each one percentage point increase in the payroll tax rate would generate about $16 million in additional revenue, assuming no change in employment as a result of the payroll tax increase. An average NWT employee would pay additional annual payroll tax of $516 and, therefore, have $516 less in disposable income, which would have negative consequences for consumer spending.

Because the payroll tax is levied only on employment income, a rate increase would increase the tax burden of NWT residents earning employment income relative to those who earn other sources of income such as self-employment income, pension or investment income, which strains the principles of fairness and neutrality of the tax system. High payroll tax rates may provide sufficient incentive for individuals to attempt to switch employment for self-employment contracts.

Some of a possible payroll tax increase could be offset by an increase in the Cost of Living Tax Credit (COLTC). However, this would create two issues:

- because the COLTC applies to all NWT tax payers, a COLTC increase would give more benefit to those who do not pay payroll tax; a further violation of the principle of the tax system fairness;

- simultaneous increases to the COLTC and the payroll tax could be seen as imposing a payroll tax targeting non-resident workers with implications for the *Tax Collection Agreement* with Canada that include a refusal to administer the COLTC.

Suggestions have been made to impose a differentiated payroll tax, with a higher rate on higher employment income. This would make the system complicated to administer for business and influence taxpayer behaviour at the wage points where the rate changes.

f. Tobacco Taxes

The NWT cigarette tax rate is one of the highest in Canada and although there is room to raise NWT tobacco tax rates, close consideration of the tax rates in other jurisdictions, particularly Alberta, is necessary to reduce the incentive to smuggle cigarettes into the territory.

The NWT's current 27.2 ¢/gram loose tobacco tax rate is low relative to the cigarette tax rate. Based on Statistics Canada's rate of 0.76 grams of tobacco per cigarette, a carton of cigarettes contains 152 grams of tobacco, making the $60.80 per carton cigarette tax equivalent to a tax of $0.40 per gram of tobacco.

Under tobacco tax legislation, the NWT loose tobacco tax rate could almost double from the current 27.2 ¢/gram based on recent Quarterly Retail Price Surveys.

g. Tax on E-cigarettes and Vaping Products

The NWT has Canada's second highest smoking rate. The NWT Bureau of Statistics estimates that about 16 per cent of NWT residents have tried vaping with most users aged 15-25 years.

The NWT has joined most other provinces and territories in implementing measures to control vaping products. These measures include:

- regulating the sale, display and advertising of vapour products;
- increasing the legal age to purchase vaping and tobacco products;
- prohibiting the sale of food and confectionary products that are designed to resemble tobacco or vapour products;
- prohibiting the sale of vapour products at certain locations such as schools, hospitals, pools and recreational facilities.

Besides stringent control, taxing vaping products is considered effective to reduce and discourage e-cigarette uses, particularly among young users who tend to be more price sensitive. British Columbia, Nova Scotia, and Newfoundland & Labrador have implemented e-cigarette taxes and Alberta and Saskatchewan have announced plans to introduce vaping taxes.

It is possible to impose a tax on vaping products in the NWT to discourage their use by amending the *Tobacco Tax Act* to include specific vaping products and apply the tax to e-cigarettes and vaping substances at a per unit rate high enough to provide a price incentive not to purchase. However, there are some challenges with implementing a vaping tax including the point of taxation, definition of a tax base on products and high implementation costs.

The federal government announced in its 2021 budget (April 19, 2021) its intention to introduce a new taxation framework for the imposition of excise duties on vaping products in 2022. The Government of Canada will also work with any provinces and territories that may be interested in a federally coordinated approach to taxing these products, similar to the coordinated approach to cannabis taxation.

h. Fees and Charges

The GNWT collects about $24 million annually in fees and licences.

The most recent comprehensive revenue of GNWT fees and charges was conducted in November 2010. As a result of this review, the Financial Management Board directed, effective April 1, 2011, that all fees identified as needing "catch up" to inflation increases be increased and approved a schedule to increase fees by inflation on a regular basis (either annual or biennial updates for large fees that generate significant revenues and five years updates for small fees and charges).

The next scheduled five year update to increase all fees by inflation since their last increase is in 2021. Adherence to this process is based on the assumption that all fees and charges continue to be at appropriate levels and if they need to be adjusted further then this will happen either at a scheduled review or as necessary.

i. Resource Revenues

As the manager of the Northwest Territories non-renewable resources, the GNWT tries to capture as much revenue as possible from these sources without stopping their development. The GNWT does this through profit-based royalties on minerals, oil and gas and related fees and leases, in addition to other taxes that all industries pay. Theoretically, the government is trying to extract all the revenue that a firm earns from the resource above the minimum amount that it needs to be willing to continue to extract the resource.

Raising additional revenue from the resource industry through changes to resource taxes, a production tax or the royalty structure must be balanced with the need to remain competitive and attract further investment. Any changes must take into consideration the importance of resource development to the Northwest Territories economy, the Northwest Territories economic competitiveness internationally and the contributions that resource companies make to total GNWT revenues directly through property taxes, corporate income tax, and fuel taxes and indirectly through payroll and personal income tax from their employees.

Also any options must be weighed against the understanding that the GNWT retains only 37.5 per cent of every new dollar raised by the increased rates. Under the *Northwest Territories Lands and Resources Devolution Agreement*, the GNWT shares 50 per cent of resource revenues with Canada and 25 per cent of the remainder with Aboriginal government signatories to the *Agreement*.

Uncertainty in the global economy, low commodity prices and exchange rate volatility are major factors in the profitability of the NWT resource sector and temper any expectation that raising royalty rates would generate significant additional resource revenues. A full review of the possible options to generate more royalties or taxes from the resource sector are beyond the scope of this paper but a royalty review with recommendations for refinement of the resource revenue regime is currently underway.

Possible options to replace or change the current royalty regime include:

- Production or resource extraction tax – this type of tax is based on the quantity extracted and in its simplest form does not consider the costs of extracting the resource. The tax rate can be per unit (quantity produced) or on the selling price. The advantage of a production tax is that it is easy to administer; however, from a policy perspective it is inefficient because the tax causes a disincentive to exploit non-renewable resources when the deposit is expensive to extract.

- Not allowing certain deductions or increasing the royalty rate structure in the current system – this option may increase GNWT revenue in the short term from existing resource projects but also may reduce the incentive to extract resources from high cost deposits.

- Share in the production – common ways include taking an equity share in the resource project or accepting a set amount of the resource (very similar to a selling price production tax). These could be negotiated on a project-by-project basis.

j. Standing Committee on Accountability and Oversight Request

Standing Committee has requested an assessment of the revenue potential associated with reinvesting monies, such as securities, that the GNWT holds in trust. The GNWT has about $17 million in cash held in trust and $640 million in Irrevocable Letters of Credit and Surety Bonds.

The cash portion is held in trust which means that the company still has ownership of the funds and earns income on the trust account until such time as the GNWT has reason to call on the trust. The GNWT only administers the trust according to the terms and conditions of the agreement and does not have control over the assets. The Irrevocable Letters of Credit and Surety Bonds are held by the GNWT but are promises that the funds are available should the GNWT have reason to call on the funds and there is no opportunity to earn a return from these instruments.

Summary of Options

Table 15 summarizes the revenue options discussed in the paper.

Table 15: Summary of Revenue Options

Revenue Option	Tax rate increase	Projected Tax Yield (millions)	Implications
Current Taxes			
Personal income tax	• Add new high income tax bracket	$0.8 to $3.5, depending on top bracket and tax rate chosen	**Pro:** Consistent with the progressive nature of the NWT personal income tax system. **Con:** Increasing tax burden on high-income earners may be a disincentive to attract new high-salaried professionals to the territory.
Personal income tax	• No change to the first tax bracket tax rate • 2.5% increase to the second bracket tax rate; • 2.75% increases to the third and fourth bracket tax rates; and, • a new fifth tax bracket with a 20% tax rate on taxable income over $200,000	$25	**Pro:** Easy to implement with an amendment to the *NWT Income Tax Act*. It would be consistent with the progressive nature of the NWT personal income tax system. **Con:** The NWT would have the highest personal income tax burden in Canada.
General corporate income tax rate	Could increase general tax rate above national average	Adding 1 percentage point to the general rate may generate $3 million but depends on corporate profitability.	**Pro:** General tax rate change does not affect small business. **Con:** Revenue will depend on corporations' profitability at time of rate increase and assumptions of corporate behaviour and would make the NWT less attractive for business investment.
Fuel tax	One cent per litre tax rate increases for on-highway gasoline and aviation	$0.4 in gasoline fuel tax revenue plus $0.5 aviation fuel tax revenue.	**Pro:** Fuel tax rates have not increased since 1997 and have not therefore kept up with inflation. **Con:** Increased cost of living and operating costs for businesses.

Revenue Option	Tax rate increase	Projected Tax Yield (millions)	Implications
Carbon tax	Not applicable		Future tax rate increases are already legislated
Payroll tax	1 percentage point increase from 2% to 3% of employment income	$16	**Pro:** Easy to implement as it is a rate change only. **Con:** Increasing tax burden on employment income compared to other forms of personal income. Creates disincentive to attract new labour to the territory. Reduces the progressivity of the tax system.
Property tax	Not recommended		Mill rates are already annually indexed to inflation
Tobacco tax (Loose tobacco tax rate)	Quarterly Retail Price Survey rate	$0.6	**Pro:** Tax rate increase may discourage consumption. **Con:** Potential increase in illegal tobacco activity.
Fees and charges	Opportunity to increase fees limited to ensuring there is a reasonable relationship to the cost of service provided.	Unknown	There may be an opportunity to raise some fees as long as there is a reasonable relationship to the cost of service provided. Increases to reflect inflation are justifiable.

Revenue Option	Tax rate increase	Projected Tax Yield (millions)	Implications
New taxes			
Sales tax	2% on goods and services taxed under the federal GST	$20.0	**Pro:** Harmonized sales tax would be easy to implement. Administration would be done by the Canada Revenue Agency. Large and stable revenue generating potential and can take up room vacated by the 2 percentage point reduction in GST (dropped to 6% in 2006 and 5% in 2008). **Con:** The cost of living will increase. The GNWT would have to administer any rebate program for specific goods. Residents in remote communities will be most affected because of higher prices.
Vaping products and E-cigarette tax	Likely based on nicotine content	Consumption data not available; unlikely to be a revenue generator given cost of administration	**Pro:** Would discourage consumption **Con:** nature of products would make tax administration difficult and expensive

Conclusion

This paper provides a brief review of the NWT tax structure and other own-source revenues and presents possible options to increase these revenues.

The main reason that the GNWT raises revenues is to provide government programs and services and make infrastructure investments that make the NWT a good place to live and do business. However, tax revenues, which are the main source of GNWT own-source revenues, are also used for other purposes such as redistributing wealth and income, promoting economic growth and encouraging certain behaviours and discouraging others. The differing tax policy objectives mean that raising rates on existing tax bases, or introducing new taxes to the NWT tax mix, is more complex than simply generating a list of potential revenue-raising options.

The key considerations when determining possible revenue-raising options are:

- **Economic impact:** no matter how carefully revenue raising measures are structured, they will likely raise the cost of living and/or the cost of doing business, with implications for the ability to attract new investment and employment. The NWT's harsh climate, limited infrastructure and high transportation costs, all contribute to the high cost of living, which is reflected in the current NWT tax structure.

- **Timing of tax increases:** raising taxes during uncertain economic times may not be good fiscal policy**.** Governments typically try to stimulate the economy during slow or uncertain periods and resist increasing the tax burden. A continuing weak global economy may dampen demand for NWT resources, and low resource prices will hurt the overall NWT economy. Potential new mines are currently having difficulty obtaining financing. Low oil prices have caused oil and gas activity, including new drilling and exploration projects, to almost disappear. The economic dominance of the resource sector has a dramatic ripple effect on the rest of the NWT economy in relatively short order through its strong linkages to transportation, construction, wholesale and retail trade, and real estate. Current economic projections show a protracted decline in resource production and identified potential mining operations will not replace the economic activity of current operations in terms of output or employment. Resource exploration, essential for further development, is also declining. Increasing taxes carries both near and long term risk for the NWT economic outlook, which directly translates into revenue risk for the GNWT.

- **Own-source revenues are 20 per cent, or $380 million of over $1.9 billion in total revenue.** Increasing own-source revenues an additional $20 million would represent revenue growth of less than one per cent. Increased revenues may have a place in addressing the GNWT's need for increased operating surpluses but expenditure needs and wants must be squared with the ability to raise revenues to pay for them. While the GNWT's fiscal strategy will include looking at revenue options, the solution to the fiscal situation will not be realized solely by increasing taxes on NWT residents and businesses. The few revenue options that could generate significant revenues would discourage business investment and economic growth, and would leave individuals and families with less disposable income at a time when the costs of living are rising.

  The negative impact on consumers and businesses must be weighed against the positive effect of increased government spending, especially given the size of the NWT tax base and the small contribution of tax revenue to total GNWT revenue.