



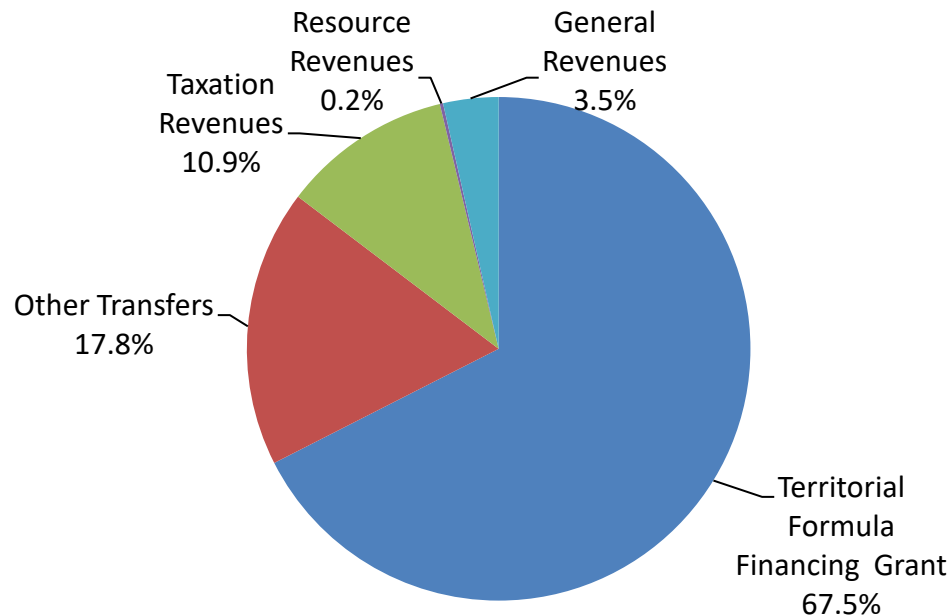
Government of
Northwest Territories

Revenue Options

Budget Dialogues 2021

Where our Revenues Come from

- Limited number of tax payers and options to raise revenue result in a reliance in federal transfers.



Revenue Options – Criteria and Challenges

Criteria:

- Revenue-raising potential from small tax bases
- Respect tax policy principles to ensure the tax system is simple, fair, efficient and predictable;
- Consider the implications for the economy, especially on the cost of living and doing business.

Challenges to find a balance between:

- expenditure needs and economic growth;
- income redistribution to reduce inequality among residents and incentives for individuals to work and live in the NWT;
- businesses and individuals.



Increasing Revenues vs Increasing Taxes

- The GNWT can increase its revenues through:
 1. Economic and population growth, and/or
 2. Tax rate increases, new taxes or finding new revenue sources.



Increasing Revenue Through Economic Growth

- Growth in the NWT's economy and population result in higher revenues through:
 - Increased tax bases
 - Higher Territorial Formula Financing (TFF) entitlements – each new resident represents a \$40,000 increase in the TFF Gross Expenditure Base
- Growth in tax revenues is constrained by:
 - Leakages - much NWT economic activity benefits other jurisdictions (capital imports and non-resident labour)
 - **Tax base growth is subject to TFF clawbacks – on average keep 30% of tax base growth through the TFF Economic Development Incentive**



Increasing Revenues Through Tax Increases

- The GNWT levies tax on corporate and personal income, payroll, fuel (includes carbon tax), tobacco, property and insurance premiums and has mark-ups on the sale of liquor and cannabis products.
- Tax rates, with the exception of tobacco and liquor mark-ups, are near or below the national average.
- Tobacco taxes and liquor mark-ups are among the highest in Canada.
- The NWT has no territorial sales tax.
- **Under Territorial Formula Financing, the GNWT keeps 100 per cent of tax rate increases and new taxes.**



Options: Taxes on Individuals

- Progressive personal income tax: the GNWT taxes high income individuals at higher rates than those with lower incomes. The Payroll Tax also increases the tax burden on those earning employment income.
- NWT personal income taxes are below the national average to address the high cost of living in the territory.
- Adding a new top tax bracket of \$200,000 at 18% tax rate would yield about \$2 million for the GNWT.



Options: Taxes on Business

- In the NWT, the general corporate income tax rate is 11.5%. For small businesses, the tax rate is 2% on taxable income below \$500,000.
- NWT general corporate income tax rate is slightly below the national average (11.7%) while the territorial small business tax rate is higher than the national average (2.6%).
- The additional revenue from raising the general corporate tax rate is difficult to estimate given potential changes in large corporate behaviour and the volatility in resource sector profits.



Options: Consumption and Other Taxes

- Current GNWT Taxes:
 - Tobacco: high cigarette tax rate but there is room to increase tax rate on loose tobacco.
 - Fuel: fuel taxes are lower than national average but also applied to off-road consumption. Fuel prices are some of the highest in Canada.
 - Carbon: future tax rate increases have been legislated up to July 1, 2022.
 - Properties in the General Taxation Area: the general and education mill rates are annually indexed to inflation.
 - Liquor mark-ups: retail prices are among the highest in Canada.
 - Insurance premiums: the tax rates are comparable to provinces.
- Possible new taxes:
 - Territorial sales tax of 2% harmonized with the federal GST would raise about \$20 million annually for the GNWT.



Options: Fees and Charges

- Fees are used to partially offset the government cost of providing specific services to users. The GNWT collects about \$25 million in fees annually.
- Effective April 1, 2012 fees are indexed to inflation automatically unless:
 - the increase may discourage use and compromise public safety;
 - the increase is uncompetitive with other jurisdictions;
 - the fee is already at market rates (i.e. commercial leases);
 - the fee is politically sensitive (for example an access to information request fee);
 - the cost of delivering the service has declined.



Options: Resource Revenues

- Under the Northwest Territories Lands and Resources Devolution Agreement, the GNWT collects all resource revenues and, after removing land claims, shares 50 per cent with Canada, subject to a cap that is unlikely to be triggered in the near to medium term.
- Up to 25% of the “net fiscal benefit” is shared with Indigenous governments. The GNWT keeps 37.5% of resource revenues, less if cap is triggered.
- A royalty review with expected recommendations is currently underway. Considerations include ensuring changes do not risk discouraging new exploration and mines, reducing life of existing mines (leave ore in the ground), especially given low commodity prices and the difficulty resource companies are having obtaining financing.



Summary

- No opportunity to raise significant revenues without raising the cost of living.
- Revenue options exist to increase own source revenue.
- However, new revenue generation will not ensure fiscal sustainability and government spending must continue to be managed responsibly.

