



Government of
Northwest Territories

Revenue Options

BUDGET DIALOGUES 2020



Introduction

The 2020 Budget Dialogue is an opportunity for NWT residents to learn more about how the Government of the Northwest Territories (GNWT) budget works and to share their views on spending.

The GNWT is seeking resident input on new potential sources of revenue. The following information is provided for your reference and to help inform the discussion.

Revenue Options Criteria

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

Revenue Options Challenges

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

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 \$39,000 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)

Revenue Options

- **Taxes** (under TFF, the GNWT keeps 100% of revenue from tax rate increases or new taxes)
 - on individuals
 - on businesses
- **Consumption and other taxes**
- **Fees and charges**
- **Resource revenues**

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.

Taxes on Businesses

- In the NWT, the general corporate income tax rate is 11.5%. For small businesses, the tax rate is 4% 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 (3.1%).
- 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.

Consumption and Other Taxes

- **Current GNWT Taxes:**
 - **Tobacco**: high cigarette tax rate with room to increase rate on loose tobacco.
 - **Fuel**: higher 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.
 - **Properties in the General Taxation Area**: the general and education mill rates are annually indexed to inflation.
 - **Liquor mark-ups**: Retail prices among the highest in Canada
 - **Insurance premiums**: comparable to provinces

Consumption and Other Taxes

- **Possible New Taxes:**
 - **Territorial sales tax:** At two percent (2%) harmonized with the federal GST, an NWT sales tax would raise about \$20 million annually.

Fees and Charges

- Fees are used to partially offset the government cost of providing specific services to users. The GNWT collects about \$24 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 ATIPP request fee);
 - the cost of delivering the service has declined.

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 is currently underway. Considerations include ensuring changes do not discourage new exploration and mines or reducing the life of existing mines (leave ore in the ground)—especially given low commodity prices and the difficulty resource companies are having obtaining financing.

Summary

- There are limited opportunities to raise significant revenues without raising the cost of living.
- Revenue options generate small amounts of own source revenue in comparison to the level of operating expenditures.
- Even if the GNWT implements new revenue options, government spending for programs and services needs to be managed responsibly to ensure fiscal sustainability.

To learn more about the GNWT's budget
and budget process, visit:
www.fin.gov.nt.ca/budget