

Revenue Options



Report on 2010 Revenue Options Consultations



GOVERNMENT OF THE NORTHWEST TERRITORIES

Report on 2010 Revenue Options Consultations

Issued by the Honourable J. Michael Miltenberger
Minister of Finance

December 2010



Kīspin ki nitawihtin ā nīhīyawihk ōma ācimōwin, tipwēsinēn.

Cree

ʔerihitl'ís dëne súliné yati t'a huts'elkér xa beyéyati theʔa ʔat'e, nuwe ts'ën yóhti.

Chipewyan

If you would like this information in another official language, call us.

English

Si vous voulez ces renseignements en français, contactez-nous.

Français

Jii gwandak izhii ginjìk vat'atr'ijahch'uu zhìt yinohthan jì', diits'at ginohknìi.

Gwich'in

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.

Inuinnaqtun

ᓇᐱᑦ በᓇᓇᓇ ላᐱᔪᓇ ለᓇᓇᓇ ለᓇᓇᓇ/ᓇᓇᓇ, ለᓇᓇᓇ ለᓇᓇᓇ.

Inuktitut

UVANITTUAQ ILITCHURISUKUPKU INUVIALUKTUN, QUQUAQLUTA.

Inuvialuktun

K'éhshó got'ine xədá k'é hederi ʔedíhtl'é yeriniwé nídé dúle.

North Slavey

Edi gondi dehgéh got'ie zhatié k'éé edatl'éh enahddhë nide.

South Slavey

Tħichø yati k'èè dè wegodiù wek'èhożqo neewo dè, gots'qo goahde.

Tħichø

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INTRODUCTION

For the past two years, the Department of Finance has consulted NWT residents and businesses on tax initiatives. Input received from these consultations is used to help guide the Government of the Northwest Territories (GNWT) decisions on long-term tax, economic and fiscal policies.

Continuing this commitment, the Minister of Finance hosted a third round of revenue consultation in October 2010, with a roundtable discussion held on October 7th in Yellowknife. This year's discussion focused on two specific tax options:

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

The carbon tax option was put forward for consideration as a result of the 2008 and 2009 Roundtables where the issue of whether the GNWT should implement a carbon tax had been consistently raised. The hotel tax option was presented in response to a motion passed by the Northwest Territories Association of Communities (NWTAC) at their 2010 Annual General Meeting supporting territorial legislation to allow for a municipal hotel room levy to fund tourism marketing and development initiatives. These potential new taxes would align with the government's priorities to protect the environment and promote the NWT as a place to visit or live.

The Department of Finance released a discussion paper that provided the background and context to facilitate public discussion on these two tax options. This discussion paper is available on-line at the Department's website at www.fin.gov.nt.ca.

2010 ROUNDTABLE

A. THE PROCESS

In order to allow for broad discussion, thirty-three organizations from different sectors were invited to participate in the roundtable. Eighteen organizations were able to accept the invitation and took part in the dialogue. In addition, five groups brought an observer to the meeting. A full list of invitees and participants is included in Appendix A.

As in the previous roundtables, the participants represented a cross-section of business, not-for-profit, labour, community and Aboriginal government organizations in the NWT. This diversity offered a broad range of perspectives that enriched the discussion and allowed for a well-rounded consideration of the questions placed before them. Despite differences in their priorities and mandates, the participants shared a concern for the future health and prosperity of the NWT as well as an understanding of the important links between social, economic and environmental aspects of NWT life.

The 2010 Roundtable was scheduled for one day. Participants were asked to do part of their work in a small group setting, with each group well-represented to balance different individual viewpoints and facilitate productive group discussion.

The roundtable was structured around a series of questions on two possible new taxes for the NWT: a carbon tax and a hotel tax (Appendix B). However, in his opening remarks, the Minister of Finance also encouraged participants to bring other ideas to the table. While side issues were raised, they were generally tied to the topics at hand.

B. RESULTS

1) Setting the Context – Minister’s Opening Remarks and Presentations

The Minister of Finance, the Honourable J. Michael Miltenberger, opened the roundtable with an overview of the direction of the previous two roundtables. He emphasized that it was not the government’s intention to increase the tax burden on residents and businesses but rather to examine the current tax structure to determine the potential for making changes in the future that would shift the tax burden. He asked the group to focus on two specific options: a carbon tax and a hotel tax, but also invited participants to comment on other revenue options if they wished. He assured the group the discussion was not intended to drive changes for the upcoming 2011 Budget but to set the stage for future direction and further research.

The Minister also highlighted the need for tax revenues to support government programs and services. He indicated that the GNWT, like other governments in Canada and in other countries, was shifting focus from addressing the economic downturn to getting back to efforts to deal with the sustainability of government programs and services.

Following the Minister’s opening remarks, two presentations were made: the first discussing the results of the 2009 Roundtable and the ensuing actions by the government; the second providing an overview of the government’s current fiscal situation, including debt management.

2) Carbon Tax Discussion

Before participants broke up into small groups, the Department of Finance made a presentation highlighting the issues as presented in the discussion paper. Next, two panellists offered their thoughts on the topic. Dr. Ray Case, Director, Environment of the Department of Environment and Natural Resources, spoke about the GNWT Greenhouse Gas Strategy and its current changes, the link between the strategy and initiatives such as a carbon tax, and the potential alternative energy options in the NWT including geo-thermal, hydro, wind and bio-mass. He also provided some emission statistics in the territory.

The second panellist was Dan Perrin, Public Policy Consultant, with Perrin, Thorau & Associates Ltd. Mr. Perrin had experience with the implementation of the carbon tax in

British Columbia, and offered comments based on that involvement. He proposed some questions for participants to consider when they discussed the carbon tax option:

- Should the GNWT implement a carbon tax?
- What would be the target for reducing the green house gas emissions?
- How much responsibility do you want to take as a consumer to reduce your carbon footprint?
- What are the alternatives to a carbon tax?

He explained that a carbon tax was essentially a consumption tax on fossil fuels and paid by end users at the pump or distributor. The tax rate for each type of fuel varied dependent on its carbon content. He talked about the decision in British Columbia to give back revenues generated from the tax to residents and businesses through tax rebates and income tax reductions, thus making it a tax shift rather than a new tax. No revenue from the tax was set aside to support environmental projects.

Participants posed a number of questions for the panellists including:

- How could the GNWT implement a carbon tax without it being perceived as a disincentive to current or prospective businesses in the North? *If the tax shift is revenue neutral it should not impact such decisions.*
- Can government look at this or any other tax within a bigger picture of government-driven policies, incentives and disincentives and how that total picture impacts people or businesses that may want to live and work here?
- How would the projected revenues differ under a cap-and-trade system? *A cap-and-trade system is market-based and does not have to involve government, so there may be no government revenues.*
- Has any modeling or analysis been done to determine the actual impact of a carbon tax on the reduction of greenhouse gas emissions? *The British Columbia carbon tax has not been in place long enough for the impact to be significant yet. Very limited modeling has been done to this point, but the available results show a small change over a relative long period of time*
- Has anything been done elsewhere to account for differences in costs in remote locations? *In British Columbia, for example, there have been special rural rebates.*

The participants were then divided into three small groups for discussion, and reported their results back to the plenary session.

Group 1

The first group indicated their support in principle for a carbon tax. They cautioned that more work and further consultation with stakeholders would be required. It would be important to assess the NWT competitiveness relative to other jurisdictions, and the potential impact the new tax would have on globally exposed businesses. The potential carbon tax should not be considered in isolation, but should be viewed in light of

existing government programs and policy frameworks to identify and prevent any unintended consequences. They suggested that the new tax should not increase the overall tax burden on low-income individuals and families, and that tax rebates or credits should not affect recipients' entitlements under existing social programs.

The group felt that the concept of a carbon tax was feasible but "the devil is in the details". For example, how would revenues from the tax be allocated equitably to support the underlying objectives of the tax?

The group expressed concern that the adoption of clean-energy alternatives by residents and businesses could be unaffordable, especially for those on low incomes or small business owners. The group saw value in free retrofit grants, or loans, from the government to promote greater energy efficiency in homes and businesses.

Recognizing that returning the tax revenue to residents and businesses through the income tax system was one option, the group was open to the idea of allocating some of the tax revenues for programs. This second option, however, would make the tax no longer revenue-neutral.

Group 2

The second group was split on whether a carbon tax should be introduced. They expressed concern over who would ultimately pay the tax.

There was discussion on whether a business would be able to pass the tax to its customers. It was suggested that companies that could make a change in their operations, or had more ability to pass on the tax, would have an advantage. Other industries, such as the airline industry, might have to absorb more of the tax. Similarly, for communities with a high degree of dependence on fossil fuels, targets for reduction and incentives to help implement alternatives should come hand in hand. The group suggested that this approach also applied for individuals.

The group questioned how the government could ensure that the tax would be cost-neutral for people, and how much control of their own activities people did have. For example, there was discussion about personal travel versus work-related travel. There was also a concern about the cost of implementing the tax and potential revenue leakage, and the need for incentives to help people reduce their fossil fuel consumption.

The group talked about whether a carbon tax was the best and most efficient way to reduce greenhouse gas emissions. It agreed that there was a strong dependency of fossil fuels in the North, and that it was important to provide incentives to promote efficiency. For example, there was concern about access in the NWT to good public transportation options.

The need to create a strong tax base was noted. The group suggested that the GNWT should be transparent about the process, with advance notice to individuals and

businesses regarding the implementation of any new tax measure, to allow them time to prepare and consider alternatives. The group felt that a combination of tax rebates and investment in programs would provide the best results for the use of revenues from a carbon tax.

Group 3

The final group was generally in favour of a carbon tax; however, they questioned whether the tax rates based on a \$10 per tonne of carbon dioxide equivalent emissions mentioned in the discussion paper would achieve the stated objective of the tax. They cited some studies showing that a carbon tax based on a \$200 per tonne of CO₂ equivalent emissions would be needed to impact a change. However, the group agreed that a study for a potential carbon tax in the NWT would be seen as a step in the right direction.

The group raised many points similar to those from the other groups. They considered the idea of a carbon tax a sound principle, but more research and analysis about its impact would be required. The group expressed reservations about how the tax would be implemented. These concerns included:

- Would the tax rates be stable or changed over time to induce a change in consumption behaviour, and sustain this impact?
- What would be the ultimate goal of the GNWT if it were to introduce a carbon tax?
- If the tax was to encourage diamond mines to invest in hydro power to supply the mines, would the investments make more sense to the private sector if committed earlier than later given the finite life of their operations. The group was also concerned about unintended consequences such as the impact on mine shut-down decisions.

The group generally agreed that revenues from a carbon tax should be used to provide tax credits to residents and businesses as well as investment in green projects.

The group raised caution about impact sensitivity induced by a carbon tax in a number of areas: sensitivity to ability to pay, sensitivity to access alternative energy sources in communities, and sensitivity to the future economic profile of the NWT. The group encouraged the GNWT to assess the strategic effect of a carbon tax i.e. would the tax encourage prospective businesses to come or existing businesses to leave the North? The group was concerned about the impact on low-income families in small remote communities: what else could they do to reduce their fuel consumption given the fact that they may have already taken all possible steps?

With the tax possibly at \$1 per barrel, the group suggested that people's consumption would be much more driven by price fluctuations than by the tax. They suggested that a combination of carrot and stick (tax and rebates/green programs) would be more effective in changing people's behaviours than just establishing a tax.

3) Hotel Tax Discussion

The afternoon began with a presentation on the hotel tax option by the Department of Finance. Representatives from NWT Tourism (NWTT) and the NWTAC provided further background on the issue.

At its Annual General Meeting held last May, the NWTAC passed a motion calling for the GNWT to grant municipalities, hotel associations and/or similar organizations the power to impose a hotel room tax within their respective jurisdictions, and to use such revenues for their own tourism marketing and development initiatives. This presentation was supplemented by details from the NWTT representative, and the representative for the NWTAC. It was explained that the two organizations were seeking the ability for municipalities to implement a small tax on hotel stays with the revenues being used for destination marketing for the community. While all municipalities would have the ability to levy a tax, they would not be required to do so. This proposed local hotel room tax would be separate and apart from the funding that the GNWT currently provides to the NWTT and other advocacy groups for their work to promote the NWT tourism industry.

There were two brief small group discussions on the hotel tax option. Some participants expressed concern that a municipal hotel room tax would not directly benefit most small communities in the NWT, except for a few large communities with significant travel activities through hotel/motel facilities in these communities. While potential “spin-off” activities resulting from increased success in attracting tourists to larger communities that could spill over to smaller communities were discussed, some concerns in this area remained. Overall, both groups supported the idea of granting municipalities the power to implement a municipal hotel room tax; however, this power should be discretionary - a municipality could opt out if so desired.

Participants did not see a role for the GNWT in the administration of a municipal hotel room tax. Some expressed concern that the GNWT could reduce its contribution to tourism once this local hotel tax was introduced. Accordingly, it was important to be clear at the outset that the two issues were separate. Participants finally suggested that an evaluation of this tax should be undertaken some years after its implementation.

4) Wrap-Up Discussion with the Minister of Finance

A representative of each small group made a short presentation of the results of their discussion to the Minister. Participants also had an opportunity to provide the Minister with additional comments, or to ask questions of the Minister. The following were additional comments that participants addressed to the Minister:

- Implementation of a carbon tax would be premature at this point until there is a clearer understanding of its objectives, impact, and implementation time line for people to prepare. It is good to be moving ahead but with caution.

- The government needs to ensure that any changes are announced well in advance so people and communities will have time to prepare. These mean things like making sure communities have WETT-certified oil burner mechanics (WETT stands for Wood Energy Technical Training) and having tools available to assist residents in making green energy choices.
- Timing is important. It is hard to ask major corporations like diamond mines to be partners and invest in huge energy projects mid-way through their expected life.
- Offsets and support can come in the form of not only tax incentives but green programs for certain groups.
- People are frustrated if having no options. Carbon tax should be considered as part of an overall Greenhouse Gas Strategy, not in isolation.
- In some industries, a carbon tax could not be seen as an incentive but simply another tax. It is important that the tax would be cost-neutral for businesses which try to deal with their high-cost operating environment. As the government puts forward green standards, there is a lack of recognition of the capacity issues and cost challenges of implementing those standards in the North.
- In developing initiatives like a bio-mass strategy and business incentive programs, the GNWT needs to blend or harmonize programs so that they can work more effectively together.
- A creative look at taxes and incentives could encourage public-private partnership for major projects like hydro development. For example, property taxes could be reduced in exchange for investment.
- There may be opportunities for companies to be innovative in their energy self-sufficiency, and they should be able to sell any excess energy that they produce to power companies such as the NWT Power Corporation.
- Individuals and businesses are exploring unique carbon-reducing solutions but the upfront costs can be prohibitively high. Government programs should be flexible in supporting these initiatives.
- Payback periods for investment in new technologies can be longer if interest rates increase.

The Minister thanked participants for attending the meeting. He also asked for feedback on the value of the roundtable. Participants expressed their support for an on-going dialogue with the government on important public initiatives. They appreciated the opportunity to meet with the Minister to provide their input, and to exchange their ideas and perspectives with members from other organizations. Areas of improvement included more detailed background material for subjects under consideration as well as more time allotted for general discussion on fiscal priorities and options.

SUBMISSIONS

Besides the roundtable, the Minister also invited residents and businesses to send in their comments on the two revenue options by October 30, 2010.

In response to the Minister's call for public input, the Department of Finance received a total of 18 written submissions from individuals and organizations, including 12 emails, 4

letters and 2 discussion papers. Appendix C lists the organizations which made submissions.

Of the revenue options presented for discussion, the carbon tax garnered the most attention. Opinions on this potential new tax are mixed. Some expressed a strong support, while others either said no or suggested more study.

The following are excerpts from some comments that the Department received:

- *“...The GNWT has taken a wise step forward in considering a carbon tax package. Such a package, if properly designed, can have positive economic, social and environmental effects. It can also provide credibility to northerners urging other governments - in Canada and abroad - to take action on climate change, which constitutes a serious threat to northern livelihoods and communities...”*
- *“...it is premature at this time for the GNWT to put a carbon tax in place. Our principle of harmonization supports a broad alignment of policy across Canadian jurisdictions. As current national policy is to align broadly with U.S. policy, and this policy remains highly uncertain, advancing a territorial solution in the absence of a clear national approach may increase the competitiveness risks for operators....”*
- *“...While we are very supportive of a carbon tax, we are concerned that the option put forward by GNWT is yesterday’s solution to tomorrow’s problems. It is well intentioned and a step forward but may be too timid and too little. We were disappointed with the very conservative approach set out in the discussion paper and the lack of options presented...”*
- *“...we recommend that more work be done to better understand the ramifications of a carbon tax and of other potential GHG reducing tools, to ensure industry’s and the NWT’s needs are considered and protected....”*
- *“...we need to stabilize (and eventually reduce) the carbon concentration in the atmosphere. We are, therefore, committed to working with governments on the design of effective policies to reduce greenhouse gas concentration in the atmosphere....”*

Five submissions commented on the hotel tax, with one supporting it and four opposing it.

NEXT STEPS

The 2010 Roundtable is the third public consultation initiated by the Minister of Finance to seek public input into the development of the government’s long-term fiscal policies. The ideas received will guide longer term work on the fiscal structure of the NWT. Any proposal for significant change to the NWT tax system will require considerable research and analysis and further consultation before any changes are brought forward and implemented.

The meeting gave participants an opportunity to exchange their ideas and perspectives with representatives from other organizations, and to present their collective recommendations to the Minister. Unlike previous roundtables, this year's discussion dealt specifically with two revenue options: a carbon tax and a hotel tax.

While a municipal hotel room tax received general support from the roundtable participants, the carbon tax option is considered more complex and requires more detailed work and further consultation. More questions need to be answered in order to fully understand its impact before a carbon tax can be considered for introduction in the NWT. The Department of Finance will work in partnership with other GNWT departments to continue work on a carbon tax and its implications.

APPENDIX A – ROUNDTABLE PARTICIPATION

Participants	Organization
Kevin O'Reilly	Alternatives North
Mike Peters	Canadian Association of Petroleum Producers
Doug Ritchie	Ecology North
Jim Kinney	Inuvialuit Regional Corporation
Therese Villeneuve	Native Women's Association of the NWT
Jay Dilley	Northern Air Transport Association
Ben McDonald	Northern Territories Federation of Labour
Tom Hoefer	NWT and Nunavut Chamber of Mines
Gordon Van Tighem	NWT Association of Communities
Ann-Marie Tout	NWT Chamber of Commerce
Jenni Bruce	NWT Tourism
Ruth Ann Elemie	Sahtu Secretariat Incorporated
James Wong	Society of Management Accountants of NWT (CMA)
Jackoline Milne	Territorial Farmers Association
John Hazenberg	Tłı̨chǫ Government
Brad Brake	Union of Northern Workers
Bob Doherty	NWT Construction Association
Observers	
Gordon Ross	NWT Association of Communities
Christine Schuh	NWT and Nunavut Chamber of Mines
Barb Wyness	Union of Northern Workers
Phil Moon Son	NWT Construction Association
Panelists	
Dan Perrin	Public Policy Consultant Perrin, Thorau and Associates Ltd.
Ray Case	Director, Environment - GNWT Department of Environment and Natural Resources

ORGANIZATIONS UNABLE TO ATTEND

Akaitcho Territory Government
Canadian Federation of Independent Business
Certified General Accountants Association of NWT & Nunavut
Dehcho First Nations
Dene Nation
Gwich'in Tribal Council
Institute of Chartered Accountants of NWT & Nunavut
Law Society of the NWT
Northwest Territory Métis Nation
NWT Council of Persons with Disabilities
NWT Fishermen's Federation
NWT Motor Transport Association
NWT Senior's Society
NWT Teachers' Association
Status of Women Council of the NWT

APPENDIX B – MEETING AGENDA

GNWT DEPARTMENT OF FINANCE REVENUE OPTIONS ROUNDTABLE The Explorer Hotel, Katimavik Room A Yellowknife, NT October 7, 2010

AGENDA

8:00 Registration Opens

9:00 Opening Comments

- Welcome – the Honourable J. M. Miltenberger
- Overview of the Day's Schedule and Administrative Matters

9:20 Information to Support the Discussions

- Summary of Follow-up Actions from 2009 Workshop
- The GNWT's Financial Position and Outlook

10:00 Health and Refreshment Break

10:15 Panel Discussion – Creation of a Carbon Tax

- Carbon Tax Options
- Panel to address the following questions:
 - **Should the GNWT introduce a carbon tax?**
 - **Should carbon tax revenue be used to reduce income taxes or be used for a combination of income tax cuts and government programs under the NWT Greenhouse Gas Strategy?**
 - **How should offsetting income tax cuts be structured?**

11:00 Small Group Discussions – Comments on GNWT Financial Position and the Carbon Tax

- Collecting ideas from the participants on the following questions:
 - What advice would you provide with respect to the GNWT's overall financial position and associated financial planning?
 - Questions listed above regarding the potential creation of a carbon tax.

11:45 Plenary Report – Carbon Tax

- Summary report from small groups to the Plenary Session

12:15 Lunch (Note: the morning session is expected to run into the noon hour.)

Afternoon

13:00 Creation of a Hotel Tax
• Hotel Tax Options

13:20 Small Group Discussions
• Collecting ideas from the participants – Questions to be addressed include:
○ **Should a hotel tax be introduced in the NWT?**
○ **Should the tax be implemented territory-wide by the GNWT, or should municipalities be given the legislative power to impose the tax within their municipal boundaries?**
○ **If a hotel tax is introduced, should restrictions be placed on the use of its revenues?**

14:00 Plenary Report – Hotel Tax
• Summary report from small groups to the Plenary Session

14:20 Discussion with the Minister of Finance
• Presentations to the Minister by Small Groups

15:00 Health and Refreshment Break

15:15 Discussion with the Minister of Finance - Continued
(Meeting will be opened to the media)

14:30 Wrap-Up

APPENDIX C – SUBMISSIONS BY ORGANIZATIONS

Alternatives North
BHP Billiton
Canadian Association of Petroleum Producers
Nunastar Properties Inc.
NWT & Nunavut Chamber of Mines
Sustainable Prosperity