

Submission
to
British Columbia's
Commission on Tax
Competitiveness

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by
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Executive Summary

Economic research indicates that tax rates affect people's behaviour, with higher taxes contributing to lower rates of economic growth, personal income growth, capital formation, and entrepreneurship. Research on taxation also finds that different taxes impose different costs on the economy. Specifically, production or capital-based taxes impose much higher costs on an economy than do less costly taxes such as consumption taxes. Unlike the consumption-based Harmonized Sales Tax (HST), the Provincial Sales Tax (PST) is partly a consumption tax and partly a tax on production. Restoring the PST has therefore increased the cost of investing in British Columbia and undermined the province's economic competitiveness.

Primarily due to the re-implementation of the PST, BC's tax system poses a challenge for the province in terms of attracting investment and facilitating economic growth. Without a more competitive system, BC risks losing entrepreneurs and investment that may gravitate elsewhere. Inaction ultimately means fewer opportunities and less prosperity for British Columbians.

This submission examines BC's performance relative to other provinces in three key areas of taxation (business taxes, property taxes, and personal income taxes) and provides reform options for each area.

To mitigate the negative effect on the provincial investment climate of restoring the PST, BC could:

- Introduce a complete sales tax exemption on all business inputs including machinery and equipment. Because sales taxes on capital goods are economically damaging taxes, this is a high priority reform option.
- Reduce the general corporate income tax rate to 8% from its current 11% rate, encouraging business investment and giving BC a marked advantage over other provinces.

Another important business tax reform is to reduce the disincentive for small businesses to grow. A less ideal but still practical option is to increase the threshold of income eligible for the preferential small business tax rate of 2.5% from \$500,000 to \$1 million.

When it comes to property taxes, BC appears to have a serious problem in its treatment of certain business classes as municipalities subsidize low residential rates

with relatively high rates on business property. Two options could rectify this problem:

- Equalize property tax rates across business classes.
- Determine ranges of fairness and thresholds based on average property tax rates in municipalities for different major classes and require all tax rate changes to move toward this range.

To attract and retain highly skilled workers, BC could make the province's middle and top marginal income tax rates more competitive. Specifically, BC could gradually collapse its top three marginal rates (14.7%, 12.3%, and 10.5%) with the ultimate goal of moving toward a single tax rate on personal income.

Introduction¹

Primarily due to the Provincial Sales Tax (PST), BC's tax system poses a challenge for the province in terms of attracting investment and facilitating economic growth. Without a more competitive system, BC risks losing entrepreneurs and investment that may gravitate elsewhere. Inaction ultimately means fewer opportunities and less prosperity for British Columbians.

Indeed, the work of British Columbia's Commission on Tax Competitiveness is important to the long-term prosperity of the province, and we are grateful for an opportunity to provide input. This submission discusses the importance of a competitive tax system, highlights the competitiveness challenge that BC faces with the reinstatement of the PST, and provides options for reform that will improve the tax system.

The Fraser Institute is a non-profit, non-partisan research and education organization. It is fully independent from government and does not represent the interests of specific groups or individuals. Our ultimate goal is to provide recommendations that will increase the general well-being of all British Columbians and the level of prosperity in the province.

Organization of the submission

The submission is divided into two main sections. The first section discusses the impact of taxes on economic behaviour and how different taxes impose different economic costs on society. The second contains two major components: the first is a brief overview of BC's performance on three important taxes (business, property, and personal income taxes) and the second is some reform options for each area of taxation.

¹ I would like to thank Hugh MacIntyre and Feixue Ren, analysts at the Fraser Institute, for their assistance in preparing this submission.

1. Why Taxes Matter

A province's tax system has a significant impact on the economic incentives that workers, investors, and businesses face. It therefore plays a significant role in shaping a jurisdiction's economic success or failure.² A competitive tax system can help ensure British Columbia remains an attractive place to work and do business in a world where provinces and countries are competing for investment dollars, entrepreneurs, and skilled workers.

Academic studies overwhelmingly conclude that tax rates do, in fact, influence individual and business behaviour when it comes to making decisions about working, investing, saving, and entrepreneurship.³ The most important conclusion from the research is that higher taxes contribute to lower rates of economic growth, personal income growth, capital formation, and entrepreneurship.

The research shows that higher taxes impose greater economic costs. However, some types of taxes impose higher costs on society than others. If British Columbians want a better standard of living—including more resources to pay for critical public services like health care and education—they will benefit from the government relying more on the *least* damaging types of taxes.

This section explains how taxes affect people's behaviour and why the mix of taxes used to collect government revenue matters.

The impact of taxes on incentives and behaviour

Though economists differ on many issues, virtually all agree on a few basic concepts. One of the most important is that people respond to incentives. That is, people make decisions by comparing the costs with the benefits of a particular action. When either the costs or the benefits change, people's behaviour will also change. For instance, when the price of beef rises, consumers will likely purchase less beef, and substitute with alternatives such as chicken. Similarly, when the price of a production input rises (such as the cork used in the wine industry), businesses will search for ways to

² See Lammam et al. (2010a) for a discussion of other key policies that influence a province's economic success including fiscal policy, government regulation, labour market policy, and transportation infrastructure.

³ See Palacios and Harischandra (2008) and Murphy et al. (2013) for comprehensive reviews of the economic research on the impact of taxes on economic behaviour.

compensate for the increased costs through substitution and innovation (like developing plastic alternatives to cork).

Taxes change the relative prices of goods, services, and inputs by making some things more expensive and others relatively less expensive. Since individuals and firms make decisions based on prices, taxes distort the behaviour of individuals, families, and businesses.

With taxation, governments have two basic choices:⁴

1. They can tax production (activities that increase economic output) through personal income taxes, corporate income and other business taxes, payroll taxes, and taxes on interest, dividends, and capital gains.
2. They can tax consumption through general value-added sales taxes⁵ or taxes on the consumption of specific goods, such as excise taxes on alcohol and tobacco.

Taxes on production

To understand the impact of taxes on production and consumption, imagine a pile of goods in the middle of a town square. The pile is the gross domestic product (GDP), the value of all the goods and services produced within an economy. As individuals and businesses contribute to the pile, society has more and better goods and services available to it such as, for example, more advanced technologies, more powerful computers, products like iPhones, better health equipment such as MRI machines and CT scanners, and much more.

When governments tax production, they penalize the process through which individuals and businesses add to the pile of goods and services that make us better off. As a result, we get less investment, fewer goods and services produced, less innovation, and fewer technological improvements.

⁴ Governments can also defer the tax bill by running deficits. But doing so does not make the debt go away; today's deficits are tomorrow's taxes. Since the increased debt that results from a deficit must one day be paid back, taxpayers respond to deficits by increasing savings or paying down debt in anticipation of higher future taxes. See Law and Clemens (1998) for an accessible analysis of this phenomenon known as the Ricardian Equivalence Theorem.

⁵ Value-added sales taxes only tax the value added by the business selling the good or service. In other words, all inputs that go into the creation of a product and service are exempt from the tax. The federal Goods and Services Tax (GST) is one example of a value-added tax.

For instance, personal income taxes decrease the take-home pay for workers, which in turn affects the total number of hours they work and their overall work effort, the types of jobs they pursue, and whether they choose to be entrepreneurial (Murphy et al., 2013). Personal income taxes can also affect how much workers invest in their skills because such taxes reduce the benefit that workers get from taking advanced training or education. Marginal tax rates on personal income are especially detrimental to people's incentives and are a critical determinant of economic behaviour since they directly affect the proportion of increased income that is left after taxes.

In Canada generally, and in British Columbia specifically, personal income tax rates increase as an individual's income increases. Put differently, our personal income tax system is progressive. Yet a progressive personal income tax structure penalizes income growth. Think of taxes as "fines," such as those imposed on people who choose to drive above the speed limit. The more income one earns, the greater the rate of the fine (such as the progressive fines applied to those who speed). We have those progressive fines because we want to stop fast driving. While the intent of progressive taxes is not to stop faster income growth, they have that effect.⁶

Likewise, taxes on savings (i.e., personal income tax on interest, dividends, and capital gains) and taxes on capital (i.e., corporate income taxes) reduce the after-tax rate of return that investors receive, thereby discouraging savings and investment.⁷ This can have significant adverse effects on productivity-enhancing investment, and ultimately wages. With decreased returns and less investment, both investors and workers lose.

Taxes on consumption

Let's return to our example of GDP as a pile of goods in the middle of a town square. When we tax consumption activity, we penalize people for taking goods off the pile. While the demand for goods and services is somewhat diminished by this consumption tax, the people who produce the goods and services are not directly penalized.⁸

⁶ See Palacios and Harischandra (2008) and Murphy et al. (2013) for reviews of academic studies that show the destructive effect of high marginal personal income tax rates and a progressive income tax structure.

⁷ See Ebrahimi and Vaillancourt (2016) for an explanation of who ultimately pays business taxes.

⁸ Sales taxes do indirectly affect the incentive to work because they reduce a worker's real wage rate by increasing the prices of consumer goods.

Since consumption taxes discourage people from consuming, they increase the incentive to save. Increased savings finance investments in machinery, equipment, new technologies, and research and development. These types of investments make workers more productive, which ultimately results in higher wages; they also result in a stronger economy with more job opportunities and better living standards.

In short, consumption taxes are less damaging to economic activity than other taxes like personal income and capital-based taxes. And that is something that economists from across the political spectrum generally agree on.

The economic costs of different taxes

Numerous academic and government studies have estimated the economic cost of different types of taxes. For example, the federal Department of Finance calculated the economic gain to society from a dollar reduction in various types of taxes (see Canada, Department of Finance, 2004). The calculations are reproduced in figure 1 and show the long-term economic costs to society imposed by the country's main taxes.⁹

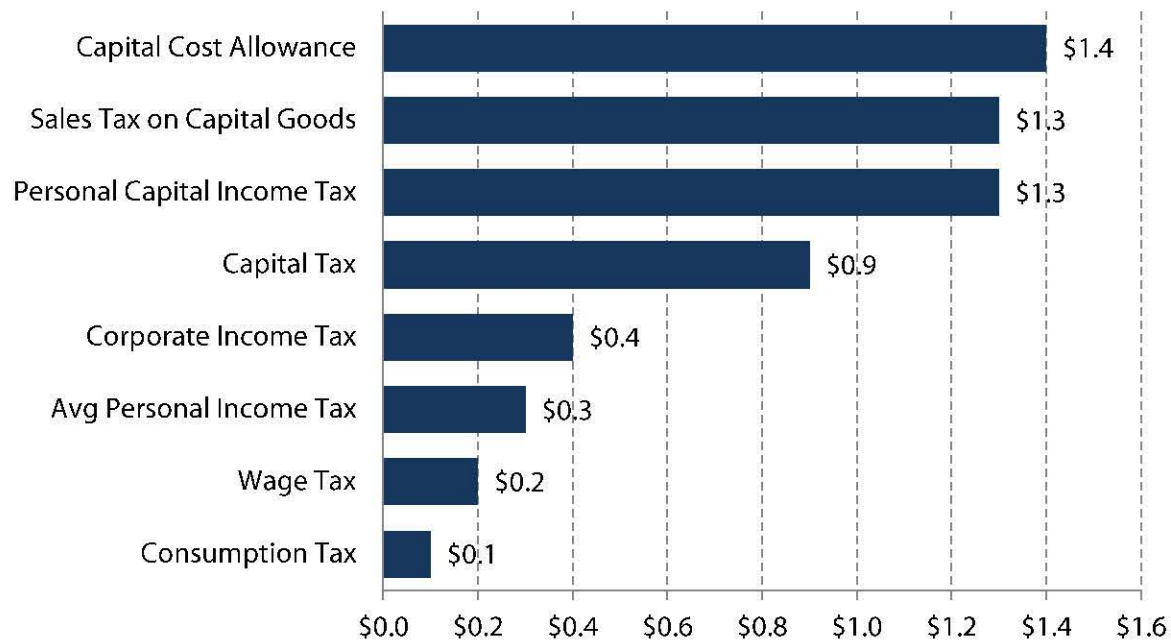
The Department of Finance study found that taxes on production—including sales taxes on capital goods purchased by businesses (the PST), personal income taxes on investment income, and corporate income taxes—impose substantially larger burdens on society than consumption taxes (the HST). Specifically, the study estimated the benefits of different types of tax cuts on economic well-being. For example, decreasing sales taxes on capital goods purchased by businesses (the PST) by \$1.00 and imposing an offsetting \$1.00 increase in consumption taxes (the HST) would result in a net increase of \$1.20 ($\$1.30 - \0.10) in society's well-being (see figure 1). Unfortunately, this improvement in social welfare was reversed when British Columbia restored the PST in 2013.

Returning to the PST was a giant step backwards in BC's tax mix

Under the HST, all business inputs (including machines, equipment, materials, energy and other items) used by entrepreneurs to produce and sell their goods and services were exempt from sales taxes. Now, under the PST, sales taxes are applied to business inputs in addition to many of the goods British Columbians purchase. Most critically,

⁹ For other research into the economic costs of taxation, see Dahlby (2012) and Ferde and Dahlby (2016). Also, see Clemens et al. (2007) for a complete literature review on marginal efficiency cost and marginal excess burden (MEB) calculations.

**Figure 1: Gain in Economic Well-Being to Society
per Dollar of Tax Reduction**



Source: Canada, Department of Finance (2004)

Notes:

(1) Revenue loss is assumed to be covered through "lump-sum" taxation. Welfare gains are calculated in dollars as the gain in economic well-being per dollar of tax reduction.

(2) The estimate for an increase in capital cost allowances (CCA) is for new capital only. Increasing CCA is not a tax reduction per se, but rather an increase in a deduction against corporate income taxes.

the PST applies to capital inputs, which increases the cost of investing in plants, machinery, equipment, and new technologies like computers and software. The PST makes it more expensive for businesses to invest, expand, upgrade, and innovate because the tax increases the cost of investment. As a result of the increased costs, the PST discourages business investment.

Some 40% of the government's \$6.4 billion PST revenues are derived from businesses buying the things they needed to produce goods and services (British Columbia, Ministry of Finance, 2010). In other words, approximately 40% of British Columbia's PST is a tax on production (business inputs) rather than consumption (final sales of goods and services).

The relatively brief period where the HST was implemented (2010 to 2013) marked a significant improvement in BC's tax mix. By reforming the province's sales tax to focus on final sales and not investment, BC markedly improved its competitiveness and dramatically reduced the cost of investing in the province.

Like the federal Goods and Services Tax (GST), the HST only taxed the value added by the business selling the good or service. In other words, all inputs into the creation of a product and service were exempt from the HST. This is the HST's greatest benefit. Meanwhile, under the PST, items purchased by businesses to produce those products and services are now subject to sales tax. Again, the PST has increased the cost of investing in BC and has adversely affected the provincial investment climate, making British Columbia a less attractive place for investors to set up operations or expand. This is why reforms aimed at improving the competitiveness of BC's tax system are critical for the province.

2. How BC Compares on Key Taxes

Throughout the 2000s, BC made tremendous progress in strengthening its provincial investment climate, in part through personal and business tax reform. While tax reform has served the province and its citizens well by helping usher in a period of economic growth and prosperity,¹⁰ there remain areas of taxation where BC is either not competitive or does not maintain a significant advantage. Indeed, significantly more can be done to improve the competitiveness of BC's tax system and encourage individuals and businesses to undertake productive economic activities. Business tax reform in particular is desperately needed in light of the PST's reinstatement.

This section examines BC's performance relative to the other provinces in three key areas of taxation: business taxes, property taxes, and personal income taxes. Reform options are provided for each area. The principle guiding the options is that tax reform is an ongoing issue that should be approached from a longer term perspective; changes that take place in other provinces should be factored into BC's ultimate plan.

¹⁰ A 2008 study by economist Bev Dahlby assessed the economic impacts of BC's 2001 tax cuts on production and found that the cuts had a profound impact on economic growth, and will continue to exert long-term positive effects that will benefit generations to come (Dahlby and Ferede, 2008).

Business taxes

The most comprehensive measure of a jurisdiction's business tax regime is what is called the Marginal Effective Tax Rate (METR) on capital investment. The METR takes into account differing tax bases, the presence of tax credits, and other characteristics of provincial tax systems that are not readily apparent in a simple comparison of statutory tax rates.¹¹ Specifically, the METR measures the tax wedge between the pre-tax and after-tax rate of return on incremental business investment; it accounts for corporate income taxes, capital taxes, depreciation and inventory cost deductions, and sales taxes imposed on business inputs.¹² The calculation of METRs is an onerous and complex process. Thankfully, a recent report by economists Duanjie Chen and Jack Mintz provides us with some Canadian estimates (Chen and Mintz, 2015).

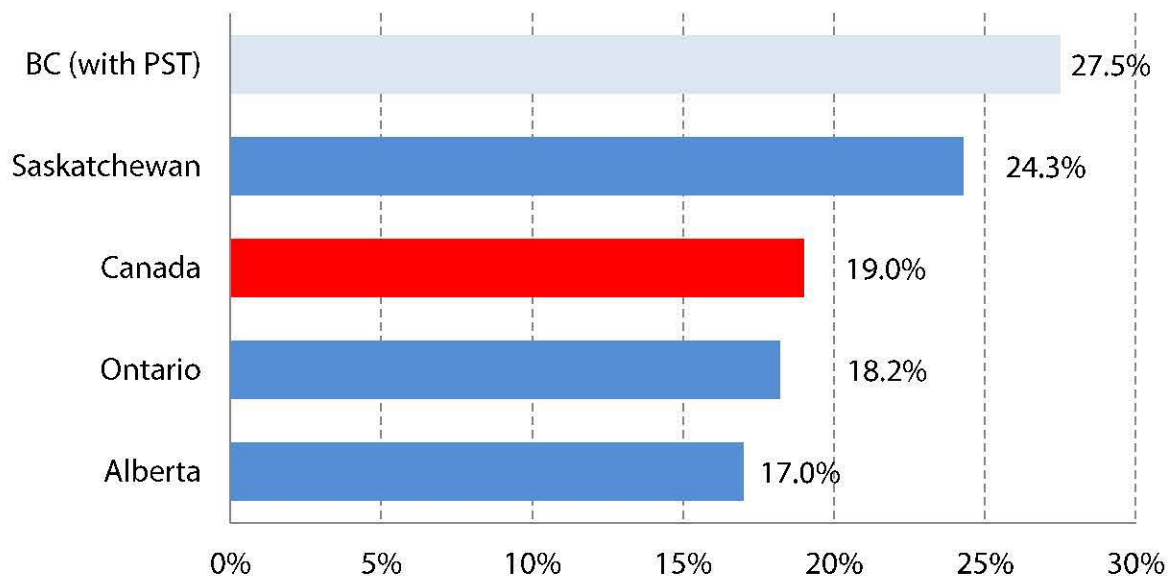
Figure 2 presents the effective tax rates on capital for businesses in BC and key provincial competitors in 2014, the most recent year for which comparable data are available. BC's METR of 27.5% far exceeds the Canadian average (19.0%) and is higher than the rates for Alberta (17.0%), Ontario (18.2%), and Saskatchewan (24.3%), which is one of the few remaining provinces, along with BC, that maintains an antiquated PST system. Conversely, in the years that the HST was in place, BC's METR hovered around the Canadian average of 19.0%.

Simply moving back to a value-added sales tax would reduce BC's current METR by approximately 8 percentage points. Put differently, BC's effective tax rate on capital would be much more competitive than it currently is had the province not returned to the PST. Fortunately, the BC government can pursue other options to mitigate the damaging impact of restoring the PST on the METR. Some options are outlined below.

¹¹ Statutory tax rates are the rates specified by the tax code which can, and often do, differ from the effective tax rates, the rates people actually pay.

¹² See Chen (2000) for a detailed explanation of how METRs are calculated and why they matter for capital allocation.

Figure 2: Marginal Effective Tax Rate on Capital Investment in BC and Key Provincial Competitors, 2014



Sources: Chen and Mintz (2015); calculations by authors

Note: The marginal effective tax rate (METR) is a comprehensive measure of a jurisdiction's business tax regime. The METR takes into account differing tax bases, the presence of tax credits, and other characteristics of provincial tax systems that are not readily apparent in a simple comparison of statutory tax rates.

Business tax reform options

>> Introduce a complete sales tax exemption on all business inputs

BC could offset the negative effect of restoring the PST on the provincial investment climate if it introduced a complete sales tax exemption on all business inputs including machinery, equipment, and technology. Something similar was attempted in 2001 but the province limited the exemption by narrowly interpreting the types of machinery and equipment, and manufacturing companies, that qualified (Wang, 2004). Indeed, the exemption was not available to most businesses and resulted in major administrative challenges that eventually deterred many companies from seeking eligibility. Because sales taxes on capital goods (such as machinery and equipment) are among the most economically damaging types of taxes, this option should be high priority. A move in this direction would at the very least resurrect a key recommendation from the government's Expert Panel on Business Tax Competitiveness (2012) and introduce a refundable investment tax credit equal to the PST paid on machinery, equipment, and technology (such as computer software).

>> Reduce the general corporate income tax rate

Another factor contributing to BC's higher overall tax rate on investment is the increase in the general corporate income tax rate from 10% to 11% that came in in 2013. A phased-in reduction to 8% would reduce the overall tax rate (mitigating some of the negative effects of the PST) and provide the province with a marked competitive advantage within Canada. More importantly, it would encourage business investment and development in the province, which will ultimately translate into a more flourishing economy with increased job opportunities for British Columbians.¹³

>> Reduce the disincentive for small businesses to grow

There is concern regarding the adverse effects of the small business preferential tax rate on business development and growth (see, for example, Clemens and Veldhuis, 2005). While a lower small business income tax rate may appear favourable, the large gap between the small (2.5%) and general rate (11%) acts as a significant barrier, or disincentive, for small businesses to grow and expand beyond \$500,000 (the income threshold for the preferential 2.5% rate). Ideally, the business tax system wouldn't discriminate based on firm size and would levy the same rate for all businesses. However, a less ideal but more practical option is to increase the threshold of income eligible for the small business tax rate (2.5%) from \$500,000 to \$1 million. Increasing the threshold for eligible income would mitigate the disincentive for small businesses to grow and develop, and thus allow British Columbians to reap the benefits of having an industrial landscape containing larger and more productive firms.

Property taxes

Property taxes are also key components of the province's competitiveness and is an area for possible reform. When it comes to property taxes, BC appears to have a serious business climate problem in its treatment of certain business classes. A major and comprehensive study in the area of property taxes was undertaken by Dr. Robert Bish in his 2004 study, *Property Taxes on Business and Industrial Property in British Columbia* (see Bish, 2004).

Since 1984, British Columbia has allowed municipalities discretion in setting property tax rates for different classes of property; in 2004 BC had nine different property classes, four of which are for businesses. Unfortunately, municipal councils have used

¹³ In addition, empirical research shows that reducing the corporate income tax rate would lead to higher wages for workers (see Ebrahimi and Vaillancourt, 2016).

this discretion to subsidize low residential rates with relatively high rates on business property. This has damaged the business climate in many municipalities.

Bish's (2004) comparative analysis of the treatment of business classes of property relative to residential ones in BC revealed that business property has been taxed at much higher rates than residential property. In 2003, the median residential tax rate in BC was 1.2% compared to 4.9% for major industry, a ratio of 4.0 (4.9% divided by 1.2%). The median ratios for other business classes were 4.6 for utilities, 2.9 for light industry, and 2.3 for other business (Bish, 2004).¹⁴ The higher the ratio, the greater the subsidy from business to residential property taxpayers.¹⁵

Most provinces, with the exception of Alberta and Ontario, put all business properties into one class and set required or maximum ratios between rates on different property classes. In these provinces, Bish (2004) found the ratios of business to residential rates are quite small. For example, in Saskatchewan it is 1.4 for commerce and industry, and 1.0 for utilities. In Manitoba it is 1.4 for business, 1.1 for pipelines, and 0.6 for railroads.

Alberta, where there is also flexibility on property tax rates and ratios, has higher residential rates and lower business rates than BC. As a result, the median ratios of business to residential tax rates in Alberta are less than 1.5. Ontario has provincially-designated "ranges of fairness," resulting in business-to-residential ratios of 0.6 to 1.1.

Bish (2004) also found that US states maintain a more balanced property tax regime with median ratios of urban commercial and industry-to-residential property tax rates of 2.0 and 1.6, respectively.

¹⁴ Major industry includes land and buildings of major industrial properties such as lumber and pulp mills, mining operations, ship building, and loading terminals. Light industry includes property used or held for extracting, manufacturing, or transporting products. Other business includes property used for offices, retail, warehousing, hotels and motels, and property that doesn't fall into other classes. For more details, see http://www.sbr.gov.bc.ca/business/property_taxes/rural_property_tax/Tax_rates/key.htm#CAT.

¹⁵ A report from the Canadian Federation of Independent Businesses found that this issue has persisted over time (see Truscott and Aerts, 2015).

Property tax reform options

>> Provide a framework for pro-investment property tax reform

A reform option for commercial property taxation is to equalize tax rates across property classes. Businesses are becoming more mobile, so municipalities must be aware of the effects of discriminatory property taxation. High property taxes may affect the location decisions of new businesses and whether existing businesses will stay open or move to friendlier jurisdictions. For this reason, the government may consider combining the number of business classes into one class. Another option is for the provincial government to determine ranges of fairness and thresholds based on average property tax rates in the municipalities for different major classes, and require all tax rate changes to move toward this range of fairness.

Personal income taxes

While the Commission's focus is on business taxation, personal income taxes are also an important component of a jurisdiction's overall investment climate and competitiveness (Lammam et al., 2010a; 2016).¹⁶ Competitive personal income tax rates enable the province to better retain and attract high-skilled professionals as well as promote entrepreneurship and innovation in BC.¹⁷

The BC government should be commended for following through on its commitment to eliminate the temporary top tax rate of 16.8% earlier this year. However, the federal government enacted its own new and higher top personal income tax rate, more than wiping out the provincial rate reduction. BC's combined federal-provincial top rate is now 47.7%, higher than the combined rate in most US states including next-door Washington (39.5%), which has no state income tax. In addition, BC maintains five separate tax personal income tax brackets. Yet this feature, along with other features of the tax system, contribute to a more complex and progressive system, causing increased economic distortions and more unproductive resources being used for compliance (Vaillancourt et al., 2013; 2016).

¹⁶ Interestingly, two previous consecutive federal governments—one Liberal, the other Conservative—have, in their economic plans, emphasized the need to reduce personal income tax rates in Canada to make the country more competitive internationally (see Canada, Department of Finance, 2005: 131; Canada, Department of Finance, 2006: 46).

¹⁷ See Lammam and MacIntyre (2016) for a discussion of the evidence related to tax rates and attracting and retaining skilled workers.

Personal income tax reform options

>> Make personal taxes on highly skilled workers more competitive

To attract and retain highly skilled workers, and to encourage productive economic activity, BC could make the province's middle and top marginal income tax rates more competitive. Specifically, the province could aim to gradually collapse its top three marginal rates (14.7%, 12.3%, and 10.5%) with the ultimate goal of moving toward a single tax rate on personal income. Reducing BC's middle and top marginal rates would harness the productive energies of skilled workers, business owners, and entrepreneurs.

More significantly, a longer-term goal for BC could be to move to an integrated approach to business and personal income taxation by instituting an overall flat tax. Under a flat tax, all sources of income—capital gains, business income, wages and salaries, and interest income—are taxed at one rate. In addition, all savings and investment are exempt from the tax, which gives businesses incentives to increase investment and encourages individuals to work, save, and take entrepreneurial risks.¹⁸

3. How to Pay for Tax Relief

Of course, the tax reform options outlined above will have significant fiscal costs to the provincial budget. Here, we briefly touch on ways the government can mitigate the impact on its bottom line.

1. Use the budget surplus to enact pro-growth tax reform

Based on the province's first quarterly update, the BC government expects to run an operating surplus amounting to \$1.9 billion in the 2016/17 fiscal year (British Columbia, Ministry of Finance, 2016). This surplus provides fiscal flexibility for the government to undertake some of the tax reform options outlined above.

2. Enact revenue-neutral tax reform by broadening the tax base

The government could broaden the tax base to create the fiscal capacity for some of the tax reforms outlined in the previous section. While the ideal case would be to

¹⁸ See Clemens (2008) for a detailed analysis of the case for a flat tax. Stanford University Professor Alvin Rabushka calculated that BC could introduce a flat tax at less than 8% and collect the same amount of revenue as it currently does (Rabushka and Veldhuis, 2008).

broaden the PST consumption base (by removing special exemptions on certain goods and services), this may not be politically feasible. Fortunately, other base-broadening options are available to create the fiscal room for pro-growth tax reform. To gain revenue in the least economically damaging manner, the government can either eliminate or significantly scale back tax credits offered through the personal and business tax systems. Doing so would provide the added benefit of simplifying the tax code.

The provincial government currently offers a litany of tax credits that narrow the tax base, which means a higher tax rate is required to raise the same amount of revenue. For instance, film and television tax credits now cost the provincial government \$491 million in lost revenue. Many of these tax credits have questionable economic value, while others reward activities that would have still been undertaken in the absence of the tax credits. They also unfairly provide special benefits or privileges to certain individuals or businesses at the expense of others. Rather than further distort the tax system with special privileges to some groups, a more effective approach is to reduce tax rates more broadly to benefit all British Columbians.

3. *Refrain from increasing taxes that are highly economically damaging*

Finally, BC should refrain from increasing taxes to garner revenue for other tax reductions. As the earlier discussion of taxes explained, this approach has widespread and damaging consequences, particularly if the tax increase is on personal income or capital-based taxes.

Conclusion

Before looking for a solution, one must identify the problem. Thankfully, with establishment of the Commission on Tax Competitiveness, the BC government seems to recognize that returning to the PST has left the province with a major tax competitiveness problem. But while the creation of the Commission is a positive development (as was the creation of the previous Expert Panel on Business Taxation), ultimately British Columbians need action, not just more study.

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