

Honourable Joe Ceci

February 21, 2019

President of the Treasury Board & Minister of Finance
Government of Alberta
323 Legislature Building
10800 - 97 Avenue
Edmonton, AB T5K 2B6

RE: SUBMISSION TO THE MINISTER OF FINANCE FOR THE 2019 PROVINCIAL BUDGET**DEAR MINISTER CECI,**

The Calgary Chamber is a non-partisan organization, founded and funded by business. This year we celebrate our 128th year and are proud to be the voice and podium of record of the Calgary business community. Today, we represent almost 400,000 employees, and work to build a community that is not only vibrant, but is one that nourishes, powers, and inspires the world.

We would like to thank you for coming to Calgary early February to consult with local business leaders and hear the concerns raised and input provided by the business community. The Calgary Chamber would also like to thank you for the opportunity to provide further input in writing for the 2019 provincial budget.

Through the roundtable with yourself and previous consultations, the Chamber has identified three ways the Government of Alberta can ensure that businesses in the province are set up for continued success while increasing investor confidence.

1. Create stability through fiscal responsibility.
2. Implement “layered cost” economic impact assessments and remove burdensome regulations on business.
3. Initiate a comprehensive tax review and commit to a reduction of the corporate tax rate.

These recommendations are part of the Calgary Chamber’s 2019 Alberta Election platform titled *Businesses Drive Cities that Thrive*. The platform includes a total of nine recommendations with further details on how the provincial government can improve Alberta’s business competitiveness, foster economic growth, and bring vibrancy to our communities. We do appreciate the steps already taken to address competitiveness for Alberta, however we know more must be done.

Fundamental competitive issues impacting the Alberta economy and investment climate must be at the forefront for the 2019 Provincial Budget. Until these issues are addressed, business will not be able to take full advantage of benefits that come from a free and competitive market.

DEMONSTRATE A COMMITMENT TO LONG-TERM FISCAL STABILITY

Balanced budgets and long-term budget planning need to be a top priority for the government. The Chamber recognizes that the Minister has put forward a plan to balance the budget by 2023, however we remain concerned that this plan relies on optimistic forecast of the global price of oil¹ and lacks the long-term outlook that Albertans need to understand the province's fiscal health. A balanced budget signals that the province is a stable place for investment, as continued deficits add to the uncertainty about future tax increases to service and repay government debt.

Due to successive provincial governments operating under deficits, we have seen multiple credit downgrades, increasing costs of servicing provincial debt and reduced certainty for business investment. By committing to long-term fiscal planning, the Alberta government can demonstrate that their fiscal management is stable, and conducive for business and investment growth.

Our lack of long-term reporting on public finances is a significant issue facing Alberta. Without a long-term-outlook, a government cannot show whether decisions made today are likely to be sustainable in the long run, requiring Albertans to accept on faith that we can carry on borrowing indefinitely, or that government has an acceptable plan to increase revenues or reduce expenses.² A 2018 Auditor General of Alberta report found that, no government in Alberta has reported about Alberta's financial condition in the long-term, and that in every year since 1981 the province would have run a deficit if oil and gas revenues were excluded.³ Long-term reporting creates a space for gradual change, instead of short-term abrupt changes often related to political cycles. The government of Alberta should consider introducing long-term reporting and budget planning. This will partially negate some of the negative effects that are being experienced by the provincial economy and create long-term certainty.

Limiting annual spending growth going forward would also contribute to increasing business and investment growth. By limiting spending growth to within the rate of inflation plus population growth combined, the government of Alberta would display a commitment to fiscal responsibility, support competitiveness, and offer a stable investment environment.⁴ Between 2004 and 2015, Alberta's program spending increased by an average rate of 7.2 per cent per year,⁵ nearly twice the combined rate of inflation plus population growth. While the current Alberta Government has inherited a difficult fiscal situation, the trend of greater spending has continued with operating spending in Alberta increasing by roughly 15 per cent⁶ between 2015 and 2018. According to Budget 2018, this trend will continue with spending rising at a rate of 3.7 per cent per year between 2015 and 2019⁷ surpassing the 3 per cent inflation plus population growth projected over this same period.⁸ The combination of deficits and lack of long-term planning has increased uncertainty for investors looking at Alberta.

By balancing the provincial budget, the government would signal stability to investors. In addition to returning to a balanced budget, The Calgary Chamber recommends that the provincial government develop long-term budget plans and commit to annual spending growth limits. Implementing these changes would ensure that the government is making decisions that are sustainable in the long run while boosting confidence in Alberta's economy.

IMPLEMENT "LAYERED COST" ECONOMIC IMPACT ASSESSMENTS

Over the past several years government policies have been making it increasingly difficult for businesses to be grow and succeed. While this is a problem that extends from all levels of governments, it is crucial that as the provincial government commits to developing policies, they not only consider the impact of policies at the provincial level, but also consider the cumulative effect of changes from the federal and municipal governments as well.

As highlighted in the Chamber's report, *'The layered costs of government policies'*⁹, a myriad of policies from all three levels of government are layering costs on the business community. By making it harder to run a business this "layered cost" is resulting in fewer job opportunities, higher prices, and is discouraging investment in the province. It is also reducing the ability of current businesses to expand and new businesses to start-up. Difficulty in running a business, especially during tough economic times, has contributed to permanent closures of Alberta businesses.

At the provincial level, Alberta businesses are facing multiple changes that are increasing the cost of labour. Alberta's minimum wage has gone up 47 per cent in just three years. In the Chamber's layered cost assessment survey, the median cost increase that an impacted Calgary restaurant and hospitality business faced due to the minimum wage increase is \$51,720, compared to 2016.¹⁰

Alberta businesses were also impacted by Bill 17: The Fair and Family-friendly Workplaces Act, which changed the Employment Standards and Labour Relations Code. Taken together, these rules govern most of the employer-employee relationship.

Additionally, in late 2015, the agriculture industry was impacted by Bill 6. This bill made operating a farm in Alberta more expensive and introduces a layer of red tape for Alberta farmers to work through.

Alberta businesses are also facing greater costs from energy regulations. The carbon tax is one of these policies that are increasing costs for business. The median cost increase for impacted restaurants and hospitality businesses surveyed in the Calgary Chamber's layered cost assessment due to the carbon tax in 2018 is \$36,408.¹¹

The Chamber recommends implementing a "layered cost" economic impact assessments on provincial policy initiatives which also considers overlap, duplication and additional regulatory burden from all levels of government. As part of the regulatory review process the government should also look to reduce overall regulatory burden by removing two regulations for every new

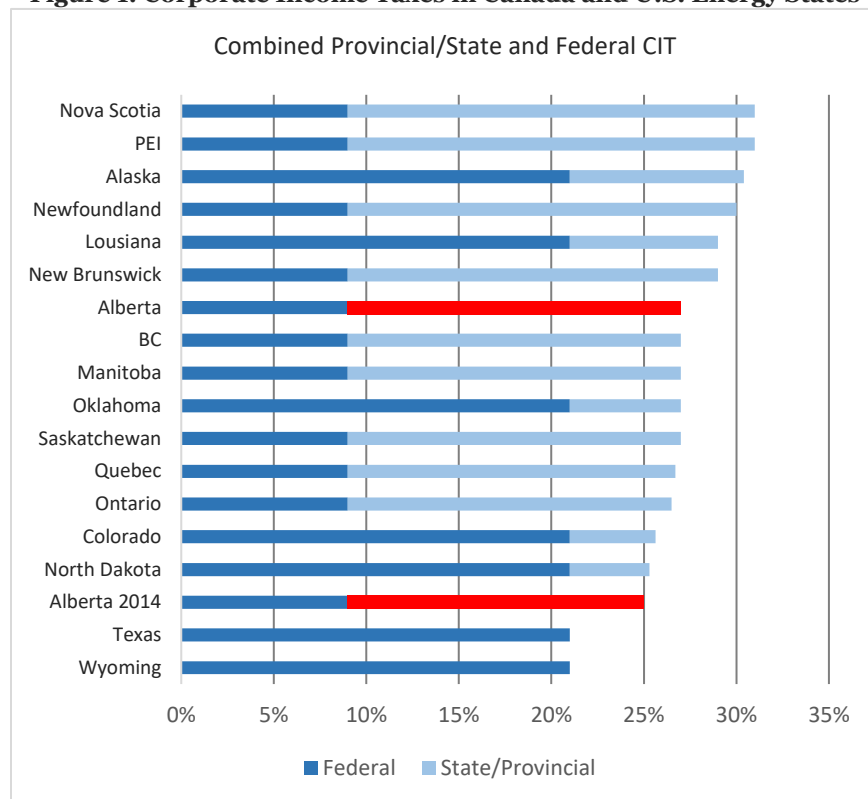
one that is added on business. This assessment would help mitigate some of the pressure forcing businesses to close their doors due to policy changes at multiple level of government.

INITIATE A COMPREHENSIVE TAX REVIEW

As figure 1 below shows, Alberta's corporate income tax rate is no longer among the most competitive in Canada, or among energy producing U.S. states. This shows that there has been a decline in Alberta's tax advantage in recent years. This comes because of tax decisions made at the provincial and state levels in North America and it is also impacted by national-level tax reforms made around the world.

With pro-business reforms being made in the U.S. and around the world, it is crucial for the provincial government to ensure that reforming Alberta's business tax system and lowering the corporate rate is a top priority. Making our tax system more competitive will enable economic and business activity, improve recent lag in business investment, foster competitiveness, and increase the tax base.

Figure 1: Corporate Income Taxes in Canada and U.S. Energy States



Sources: Tax Foundation, "State Corporate Income Tax Rates and Brackets For 2018"¹²; PwC, "Tax Facts and Figures Canada 2018".

Taxes have a large effect on the overall level of business and economic activity. A Canadian federal department of finance study that analyzed tax cuts between 2000 and 2004 found that a 10 per cent reduction in the after-tax cost of capital lead to a seven per cent increase in the amount of capital.¹³ Along with the uptake in economic activity, a competitive tax system also works as an effective tool in attracting new business investment. In 2017, non-residential capital investment in Alberta fell by six per cent, with spending on machinery and equipment falling nearly 10 per cent.

Tax competitiveness also offers positive outcomes for wage and productivity growth. Contrary to the perception that business taxes are paid exclusively by corporations and shareholders, estimates suggest that workers bear between 30 per cent and 35 per cent of the burden of corporate income tax increases.¹⁴ Between 1981 and 2014, each additional dollar of tax revenue brought by an increase in provincial corporate tax rates, wages were reduced between \$1.52 and \$3.85.¹⁵ When the federal government reduced their corporate income tax rate from 28 per cent to 12 per cent, wages increased faster than they had in the previous decade, and faster than wages in other industrialized countries.¹⁶ Even though the latter considers the federal tax rate, the same effect can be expected at the provincial level. This connection highlights the harm onerous business taxes can have on employees.

In addition to slowing the pace of economic investment and wage growth, higher tax burdens can have negative impacts on the necessary public services Albertans demand. Economists suggest that for Canada as a whole, a one percentage point increase in the provincial corporate income tax rate results in a reduction in the business tax base by 3.67 per cent in the short term, and 13.60 per cent in the long-term. This suggests that a jurisdiction's business tax burden can impact tax revenues, with slight increases in the corporate tax rate resulting in reductions in the tax base.¹⁷

Another mechanism that the government can use to lower tax burdens is to broaden the Alberta Investor Tax Credit (AITC) and Capital Investment Tax Credit (CITC). Designed to help smaller business access capital, the AITC is a 30 per cent tax credit to investors that provide capital to Alberta small businesses doing research, development or commercialization of new technology, are within the tourism sector, or are in new digital media development.¹⁸ The CITC provides a 10 per cent tax credit on eligible capital expenditures up to \$5 million. Like the AITC the CITC is also specific to certain business sectors – manufacturing, processing, and tourism, and is applied on the purchase of machinery equipment and buildings.¹⁹

Although the credits have helped reduce the tax burden on business investment, they are very limited in their eligibility criteria and are temporary. The AITC is only funded until 2022 and the CITC is a two-year program accepting applications until February 2019. Expanding the scope to all sectors and making the credits a permanent part of the tax code in Alberta would be a significant way the Government can reduce tax burdens and encourage investment.

The Chamber recommends initiating a comprehensive review of Alberta's corporate tax system with the goal of reducing the general corporate income tax rate to increase tax competitiveness and broadening investor tax credits to include all sectors as a permanent part of the tax code.

We believe that these three recommendations provide a good starting point to encourage growth in the province. Thank you for the opportunity to submit input to improve Alberta's business productivity and competitiveness.

Yours sincerely,



Dr. Sandip Lalli

President & CEO

Calgary Chamber of Commerce

¹ Government of Alberta, "2018-2021 Fiscal Plan," March 2018, <https://open.alberta.ca/dataset/8beb5614-43ff-4c01-8d3b-f1057c24c50b/resource/68283b86-c086-4b36-a159-600bcac3bc57/download/2018-21-fiscal-plan.pdf>

Budget Document forecasts the price of oil to be \$59 USD/barrel in 2018-2019, \$60 in 2019-2020, \$63 in 2020-2021, and reaching \$70 by 2023.

² Auditor General of Alberta, 2018, "Putting Alberta's Financial Future in Focus," April 2017, https://www.oag.ab.ca/documents/3/April2018_OAG_Commentary.pdf

³ Ibid

⁴ F.L. (Ted) Morton, "Why Alberta Needs a Fiscal Constitution," The School of Public Policy, University of Calgary (September, 2018) <https://www.policyschool.ca/wp-content/uploads/2018/09/Fiscal-Constitution-Morton-final.pdf>.

⁵ Compiled data from: Government of Alberta, "Government of Alberta Annual Report 2017-18," June 2018, <https://open.alberta.ca/dataset/7714457c-7527-443a-a7db-dd8c1c8ead86/resource/cb1d2565-b262-4746-9499-68e409d9f72c/download/goa-2017-18-annual-report.pdf> and Government of Alberta, "Government of Alberta Annual Report 2012-13," June 2013, <https://open.alberta.ca/dataset/7714457c-7527-443a-a7db-dd8c1c8ead86/resource/fe2662aa-9a5f-4b7f-945d-cf7a03c3e9b1/download/goa-2012-13-annual-report-complete.pdf>

⁶ Government of Alberta, "Budget 2018, A recovery built to last," March 2018, <https://open.alberta.ca/dataset/8beb5614-43ff-4c01-8d3b-f1057c24c50b/resource/68283b86-c086-4b36-a159-600bcac3bc57/download/2018-21-fiscal-plan.pdf>

⁷ Ibid

⁸ Government of Alberta, "2018-21 Fiscal Plan (Alberta Budget 2018)," March 2018, <https://open.alberta.ca/dataset/8beb5614-43ff-4c01-8d3b-f1057c24c50b/resource/68283b86-c086-4b36-a159-600bcac3bc57/download/2018-21-fiscal-plan.pdf>

⁹ Calgary Chamber of Commerce, "The Layered cost of government policies," December 2017, <https://www.calgarychamber.com/wp-content/uploads/2018/02/Report-Layered-Cost-Impact.pdf>

¹⁰ Ibid

¹¹ Ibid

¹² Some states, including Texas, have “gross receipts” taxes instead of corporate taxes. These are not included in the calculation because they are not strictly comparable.

¹³ Mark Parson, “The Effect of Corporate Taxes on Canadian Investment: An Empirical Investigation.” May 2008, <https://www.fin.gc.ca/pub/pdfs/wp2008-01e.pdf>

¹⁴ Serrato, Juan Carlos Suarez, and Owen Zidar, “Who Benefits from State Corporate Tax Cuts? A Local Labor Markets Approach with Heterogeneous Firms.”

<https://www.aeaweb.org/articles?id=10.1257/aer.20141702>. American Economic Review 106, 9 (September 2016): 2582– 2624.

¹⁵ Kenneth J. McKenzie and Ergete Ferede, “Who Pays the Corporate Tax? Insights from the Literature and Evidence for Canadian Provinces,” https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2957894. SPP Research Paper 10, 6 (April 2017)

¹⁶ Mathieu Bédard and Adam Michel, “Canada’s Corporate Tax Cut Success: A Lesson for Americans,” August 2018, http://www.iedm.org/sites/default/files/web/pub_files/note0418_en.pdf.

¹⁷ Bev Dahlby and Ergete Ferede, “The Effects of Tax rate Changes on Tax Bases and the Marginal Cost of Public Funds for Canadian Provincial Governments,”

https://econpapers.repec.org/article/kapitaxpf/v_3a19_3ay_3a2012_3ai_3a6_3ap_3a844-883.htm International Tax and Public Finance 19, 6 (2012) 844:883

¹⁸ Government of Alberta, “Alberta Investor Tax Credit (AITC), August 2017, <http://economic.alberta.ca/documents/AITC-program-guidelines.pdf>.

¹⁹ Government of Alberta, “Capital Investment Tax Credit,” September 2017, <http://economic.alberta.ca/documents/CITC-program-guidelines.pdf>.