CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
MANITOBA OFFICE

TAX FAIRNESS

The Canadian Centre for Policy Alternatives has been analysing the City's operating budget for several years now. We fully understand the challenges council faces: lack of revenues; a series of federal governments that steadfastly refuse to help eliminate the infrastructure deficit; a rapidly changing population with different needs; and since 2008, a sluggish global economy. These circumstances do not make for an easy job at budget time and no one envies you the decisions you have to make.

Most Winnipeggers understand that the tax freeze could not last forever; CCPA has recommended for years that taxes at least needed to keep pace with inflation. In spite of the challenges I mentioned at the beginning, 12 years of tax freezes have exacerbated Winnipeg's revenue woes. During the period from 1999 to 2011, the tax rate actually decreased by 6%, whereas in other prairie cities, it increased by an average of 46.75%. If anything has given other cities a competitive advantage over Winnipeg, it's been that they have been shoring up their revenues with more responsible tax increases.

Table 1

Changes in property tax rates – prairie cities – 1999-2011	
Winnipeg	-6%
Edmonton	59%
Calgary	52%
Saskatoon	45%
Regina	31%

Last year's and this year's property tax increases begin to reverse the damage done from years of tax mismanagement. Most Winnipeggers understand that in order to live in the sort of city we all want, we all have to pull our weight. Council continues, however, to allow one component of our community to avoid pulling its weight: the business community.

CCPA uses a community lens when considering the City. We don't delineate between the suburbs and the Inner City, those Winnipeggers born in Canada and newcomers, Aboriginal and non-Aboriginal, private citizens and businesses. We are all threads in the rich tapestry that makes up this city. We all contribute something.

But the last two budgets seem to expect property owners to contribute more than businesses. We see property taxes increase while the business tax is either frozen or eliminated for 40% of businesses. So business gets a break despite the fact that in order to function, it needs the infrastructure that the city provides.

The argument in support of this favouritism is that businesses provide jobs. True, but private citizens provide the labour that allows businesses to exist, and we also purchase the goods and services that companies offer and thereby provide them with their revenue. All components, business, customers and labour, are essential components in our economy. One cannot live without the other.

CCPA is also well aware of the other arguments against the business tax: businesses pay property taxes already (contributing approximately 30% to total property taxes), making the business tax "extra"; other Canadian cities do not levy a business tax, making Winnipeg less competitive and forcing businesses to re-locate.

Edmonton eliminated the business tax but increased its commercial property tax to make up for the loss. Calgary still levies a business tax and a commercial property tax, although there's been talk that they will follow Edmonton's lead. The point is not how one labels the taxes, it's the total amount paid. Looked at this way, Winnipeg businesses do not pay more total tax than businesses in other Canadian cities.

How much revenue does the City lose from not increasing the business tax? Table 2 shows that the 3.87% increase in the mill rate translates into a 5.07 % increase in property tax revenues for the City.

Table 2: Percentage property tax revenue increase: 2012 - 2013

Total 2012 property tax revenue	Total 2013 property tax revenue	Percentage increase in revenue
$459.6 million	$482.8 million	5.07%

If we increase the revenue from the business tax an equivalent 5.07%, the City would realize a $2.95 million increase in revenues that would put business tax revenues back to $60 million - where they were before the business tax rate was decreased in 2004.

We could give business a bit of a break by raising the revenues from the business tax by just half the rate we see the property tax revenues go up (2.53 %). Doing so would add $1.47 million to revenues. But many businesses get another break; we will have to add the loss from the Small Business Tax Credit, which takes $3.9 million from revenues.

Table 3: Business tax revenue loss

Total 2012 business tax revenue	Total 2013 business tax revenue with 2.53% increase*	Loss of revenue by not increasing business tax	Loss of revenue from small business tax credit (approximately 4900 businesses will save around $800)	Total business tax revenue loss
$57.6 million	$59.7 million	$1.47 million	$3.9 million	$5.34 million

*calculated on 2013 figures ($58.3 million)

So by not increasing business tax revenues, even at half the rate of the property tax revenue increase, the City has effectively cut $1.47 million from the budget. When that is added to the loss from the Small Business Tax Credit, a total $5.34 million is missing from revenues.

Not only does business get a decrease in taxes relative to property owners, but other businesses like the Goldeyes and True North get their taxes refunded.

Table 4: Revenue loss from tax refunds

True North business tax refund	Winnipeg Goldeyes property tax refund	Total revenue loss
$258,300	$41,000	$299,300

When we add the loss in revenue from: not increasing the business tax rate; the Small Business Tax Credit; and the tax refunds given to high-profile Winnipeg businesses, we have realized a revenue loss of **$5,639,300.**

This budget's optics are not great. The hefty increase in councillors' budgets just as we head into an election year is troubling, especially in light of all the organizations presenting today to express their dismay at having their funding cut. These organizations may not have the profile of a NHL team, but they all improve the quality of life in Winnipeg and some are dedicated to ameliorating poverty and its terrible effects such as lack of food and shelter. In many cases the amounts cut are tiny compared to the City's budget, but are huge compared to their budgets. By just making businesses pay their fair share, the City could ensure that these community organizations, many of whom do some very heavy lifting, could maintain their staff and services.

We worry about being competitive, but studies have shown that tax rates are not the driving factor behind businesses' decisions about where to locate. KPMG claims that businesses are much more interested in an educated workforce, adequate infrastructure, affordable utilities, access to markets and creating cities that people want to live in. Which brings us full circle; education, culture, housing, recreation and infrastructure are all paid for from tax revenues.

No one likes paying taxes, but everyone likes what taxes buy. Businesses could not operate without the infrastructure and educated, healthy workers that keep them up and running. We believe that businesses want to pay their fair share; surely they understand that when they do, they are investing in a more prosperous city for us all.

Lynne Fernandez

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