

CORPORATE REPORT

NO: **R049**

COUNCIL DATE: **March 12, 2012**

REGULAR COUNCIL

TO: **Mayor & Council** DATE: **March 8, 2012**
FROM: **General Manager, Finance & Technology** FILE: **0410-01**
SUBJECT: **Expert Panel Review of Business Taxation and Local Government Revenue Sources Review**

RECOMMENDATION

The Finance and Technology Department recommends that Council:

1. receive this report as information; and
2. request that the Mayor on behalf of Council forward a letter to the Provincial Minister of Finance that advises of Surrey Council's support of the objectives that have been set for the "Expert Panel of Business Taxation" but requests that the Panel composition be adjusted to include local government representation to ensure that the Panel fully considers the needs and interests of all affected stakeholders in undertaking its work and in framing its recommendations.

BACKGROUND

In September 2011 the Provincial Government announced the frame work for their "Canada Starts Here - BC Jobs Plan", which includes a review of the competitiveness of business taxation. This review is to take place by way of an Expert Panel that will review the impact of taxes on business competitiveness and investment. Property taxes, including those levied by local governments, will be part of the Panel review. The Panel will take a broad look at taxation throughout the Province and make recommendations to support business competitiveness, economic growth and jobs as well as propose administrative improvements to streamline the Provincial Sales Tax. The work of the Panel is expected to be completed by August 31, 2012.

DISCUSSION

On January 10, 2012 the Minister of Finance announced that the "Expert Panel of Business Taxation" will be comprised of the following members:

- Sarah Morgan-Silvester, Chancellor, University of British Columbia;
- Lindsay Hall, Chief Financial Officer, Goldcorp;
- Laura Jones, Senior VP, Canadian Federation of Independent Business;
- Elio Luongo, Canadian Managing Partner, KPMG;
- Fiona Macfarlane, Managing Partner, Ernst & Young;
- Grace Wong, BP Academic, University of British Columbia; and
- Dale Wall, former Deputy Minister, Province of BC (adjunct member).

The news release that followed Minister's announcement is attached as **Appendix "A"**.

The backgrounder information, attached as **Appendix "B"**, explains that the "Expert Panel of Business Taxation" has been tasked with generating ideas and providing recommendations for a business taxation system for British Columbia that balances the principles of competitiveness, fairness and simplicity.

The backgrounder also outlines the types of issues with which the panel has been tasked. Specifically, it will provide analysis and recommendations to the Provincial government on the following:

1. **Business tax competitiveness** – by considering the competitiveness of British Columbia's tax environment for business and by developing recommendations concerning which taxes most influence competitiveness and economic growth. It will involve a broad review of all business taxes and provincial business tax credits or other provincial business tax expenditures, and will identify and develop recommendations for ways in which the Province may address tax avoidance within the business or personal taxation systems.
2. **Administrative Improvements to Streamline the Provincial Sales Tax** – by developing recommendations for administrative improvements to streamline the Provincial Sales Tax.

The following guidelines have been developed by the Province to help guide the Expert Panel:

1. Acknowledging that the Harmonized Sales Tax was intended to improve the competitiveness of the B.C. economy, the review is intended to identify other ways to maintain and improve B.C.'s economic competitiveness, while respecting the referendum result to return to the Provincial Sales Tax.
2. The review will be restricted to provincial business taxes of general application, including tax expenditures and property taxation but excluding resource royalties and non-tax issues.
3. The review will include an examination of municipal property taxation of business and its impact on business competitiveness and investment. Recommendations must address issues of affordability and sustainability for local governments within the framework of the Community Charter.
4. Tax reforms or other recommendations must be fiscally neutral and sustainable for the Province within the Province's balanced budget framework.
5. The Expert Panel may commission independent research as necessary to conduct its review.
6. The Minister of Finance must receive the expert panel's final report no later than Aug. 31, 2012.

In addition to and in support of the "Expert Panel of Business Taxation", the Ministry of Community, Sport and Cultural Development has initiated a "Local Government Revenue Sources Review". This is an informal review that is being conducted by internal Ministry staff. This review is intended to be an information-gathering exercise to establish the current picture, what has happened in the past, and whether or not current revenue sources, such as small community and other unconditional grants are meeting the needs of local government and the Province. Information gathered from this review will provide context to the recommendations of the "Expert Panel of Business Taxation". This review is expected to be completed by July 31, 2012.

Local Government Concerns:

Several local governments from across the Province have expressed concern to the Province that the Expert Panel does not include local government representation even though the Panel is reviewing property taxation issues as an element of their work. Some of these other local governments have requested that the composition of the Panel be expanded to include local government representation.

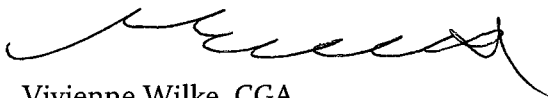
Staff holds the view given the scope and potential outcomes of the Panel's work that local government representation on the Panel is appropriate and therefore is recommending that the City forward a letter to the Provincial Minister of Finance requesting that the composition of the Panel be adjusted to include local government representation.

UBCM Involvement:

On February 10, 2012, UBCM issued a member release in response to concerns that have been raised over the lack of local government representation in the process. A copy of this release is attached as **Appendix "C"**. UBCM has requested an opportunity to provide a presentation on behalf of local governments to the "Expert Panel of Business Taxation" and has offered to work collaboratively with individuals performing the "Local Government Revenue Sources Review". UBCM has committed to provide further updates to its members as additional information becomes available.

CONCLUSION

Based on the above discussion, it is recommended that Council request that the Mayor on behalf of Council forward a letter to the Provincial Minister of Finance that advises that Surrey Council supports the objectives of the "Expert Panel of Business Taxation" but requests that the Panel composition be adjusted to include local government representation to ensure that the Panel fully considers the needs and interests of all affected stakeholders in undertaking its work and in framing its recommendations.



Vivienne Wilke, CGA
General Manager,
Finance & Technology

Appendix "A" – News Release from Ministry of Finance re: Panel to Advise on BC Tax Competitiveness.

Appendix "B" – Backgrounder from the Ministry of Finance re: Expert Panel Review of Business Taxation.

Appendix "C" – UBCM Member Release re: Province to Review Municipal Taxation and Local Government Revenue.



**THE BC
JOBS PLAN**



NEWS RELEASE

For Immediate Release
2012FIN0002-000018
Jan. 10, 2012

Ministry of Finance

Panel to advise on B.C. tax competitiveness

VICTORIA – British Columbia continues to face challenging global economic conditions, but fiscal prudence and a focus on a competitive economy that creates jobs and attracts international investment will help B.C. manage these risks, Finance Minister Kevin Falcon said in a speech to the Vancouver Board of Trade today.

In his address, Falcon reviewed the state of the 2011 provincial economy, the outlook for the coming year and discussed the importance of making British Columbia more competitive for job-creating businesses.

As part of 'Canada Starts Here: the B.C. Jobs Plan', the minister also announced the government has appointed an Expert Panel on Tax to provide analysis and recommendations to the Province on business tax competitiveness and administrative improvements to streamline the Provincial Sales Tax.

The panel will have the following members:

- Chair: Sarah Morgan-Silvester – chancellor of the University of British Columbia.
- Lindsay Hall – chief financial officer, Goldcorp.
- Laura Jones – senior vice-president research, Economics & Western Canada, Canadian Federation of Independent Business.
- Elio Luongo – Canadian managing partner, KPMG and vice-president of the Vancouver Board of Trade.
- Fiona Macfarlane – managing partner, Western Canada and chief inclusiveness officer, Ernst & Young LLP
- Grace Wong – senior advisor international, office of the provost and vice-president academic, University of British Columbia and former assistant dean international, Sauder school of business.
- (Adjunct Member) Dale Wall – former deputy minister, Ministry of Community and Rural Development, Province of British Columbia.

The expert panel will consider the competitiveness of British Columbia's tax environment for business and develop recommendations about which taxes most influence competitiveness and economic growth. It will also identify and develop recommendations for ways in which the Government of British Columbia could address tax avoidance within the business or personal taxation systems. A component of the review will also look at municipal property taxation of business.

The panel's recommendations must respect the Province's balanced-budget framework. The report will be submitted by Aug. 31, 2012.

Quotes:

Minister of Finance Kevin Falcon –

"We need to support a globally competitive, diverse economy that supports jobs and innovation within the Province's balanced budget framework. The expert panel is intended to identify other ways to maintain and improve B.C.'s economic competitiveness, while respecting the referendum result to return to the Provincial Sales Tax."

"We will carefully consider all recommendations of the tax panel, while delivering prudent fiscal management for British Columbia."

Panel chair Sarah Morgan-Silvester –

"The panel offers a broad range of experience in business and finance, and I look forward to working with them on this review. We are focused on helping British Columbia find ways to attract new investment, create jobs and grow our economy within a balanced budget."

Quick Facts:

- Private sector forecasters currently expect B.C. real GDP to have increased by 2.3 per cent in 2011, and to average 2.1 per cent growth in 2012.
- B.C. exports were up 14.5 per cent year-to-date to October, despite a sluggish US economy and an elevated currency, highlighting B.C.'s diversified trade portfolio.
- Export gains were largely in energy products (25.4 per cent), forestry (10.9 per cent) and industrial and consumer goods (14.8 per cent).
 - Softwood lumber exports to China were up 92.2 per cent in the first ten months of 2011 compared to the same period of 2010.
- British Columbia's low debt-to-GDP ratio — a key measure of affordability — forecast at 17.2 per cent for 2011-12. B.C. is one of only three provinces with a triple-A credit rating.

BACKGROUNDER

For Immediate Release
2012FIN0002-000018
Jan. 10, 2012

Ministry of Finance

Expert panel review of business taxation

Terms of reference

The task of the Expert Panel is to generate ideas and provide recommendations for a business taxation system for British Columbia that balances the principles of competitiveness, fairness and simplicity.

The panel will provide analysis and recommendations to government on the following issues:

Business tax competitiveness

- Consider the competitiveness of British Columbia's tax environment for business and develop recommendations concerning which taxes most influence competitiveness and economic growth. It will involve a broad review of all business taxes and provincial business tax credits or other provincial business tax expenditures.
- Identify and develop recommendations for ways in which the Government of British Columbia may address tax avoidance within the business or personal taxation systems.

Administrative Improvements to Streamline the Provincial Sales Tax

- Develop recommendations for administrative improvements to streamline the Provincial Sales Tax.

Guidelines

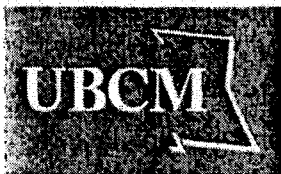
- Acknowledging that the Harmonized Sales Tax was intended to improve the competitiveness of the B.C. economy, the review is intended to identify other ways to maintain and improve B.C.'s economic competitiveness, while respecting the referendum result to return to the Provincial Sales Tax.
- The review will be restricted to provincial business taxes of general application, including tax expenditures and property taxation but excluding resource royalties and non-tax issues.
- The review will include an examination of municipal property taxation of business and its impact on business competitiveness and investment. Recommendations must address issues of affordability and sustainability for local governments within the framework of the Community Charter.
- Tax reforms or other recommendations must be fiscally neutral and sustainable for the Province within the Province's balanced budget framework.

- At 10 per cent, B.C. has the lowest general corporate income tax rate in Canada, along with Alberta and New Brunswick.
- When all taxes are considered, British Columbians generally have one of the lowest tax burdens in the country.

A backgrounder follows.

Media Contact: Government Communications and Public Engagement
 Ministry of Finance
 250 356-9872

Connect with the Province of B.C. at: www.gov.bc.ca/connect



MEMBER RELEASE

February 10, 2012

TO: Mayor and Council; Chair and Board; Senior Staff
FROM: Heath Slee, President
RE: **Province To Review Municipal Taxation and Local Government Revenue**

The Province of British Columbia is undertaking two reviews of direct interest to local government: an *Expert Panel Review of Business Taxation* and a *Local Government Revenue Sources Review*. I am writing to provide background on both of these initiatives.

1. Expert Panel Review of Business Taxation

On January 10, Finance Minister Kevin Falcon announced the appointment of an *Expert Panel* to provide analysis and recommendations regarding the system of business taxation in British Columbia. The panel will also make recommendations for administrative improvements that streamline the Provincial Sales Tax. This initiative is under the "*Canada Starts Here: The BC Jobs Plan*", and the panel must report by August 31, 2012.

The guidelines for the *Expert Panel* state that "(t)he review will include an examination of municipal property taxation of business and its impact on business competitiveness and investment. Recommendations must address issues of affordability and sustainability for local governments within the framework of the Community Charter."

Panel members are:

- Sarah Morgan-Silvester, Chancellor, University of British Columbia
- Lindsay Hall, Chief Financial Officer, Goldcorp
- Laura Jones, Senior VP, Canadian Federation of Independent Business
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The full text of the news release and terms of reference for the panel are available here:
http://www2.news.gov.bc.ca/news_releases_2009-2013/2012FIN0002-000018.htm .

2. Local Government Revenue Sources Review

The Ministry of Community, Sport and Cultural Development has advised UBCM that, in order to supplement the work of the *Expert Panel Review of Business Taxation*, and to fully

meet the Premier's commitment to review the municipal tax formula, the Ministry is embarking on a *Local Government Revenue Sources Review*.

The terms of reference for that review are not yet complete, but UBCM has been provided with some preliminary briefing material.

At this point, it appears that the review will encompass both municipal and regional district revenues from all sources, including property and other taxes, fees, grants and other transfers. The review is expected to determine trends over time and to consider whether grants are meeting the needs of the provincial government. A literature review and some form of inter-jurisdictional analysis are also expected, as is an analysis of the municipal tax policy objectives set out in municipal financial plans in BC.

The review is expected to be completed by July 31, 2012 and may provide context and background to recommendations of the *Expert Panel* and/or further policy change.

3. UBCM Engagement

Both reviews were topics of discussion during the meeting of UBCM's Executive of February 3, 2012. During the portion of the meeting where we were joined by Ida Chong, Minister of Community, Sport and Cultural Development, the Executive noted that local governments would be concerned that a panel investigating municipal taxation lacks local government representation. The Executive also commented that the composition of the *Expert Panel* might lead to questioning of its recommendations.

In terms of next steps, UBCM will contact the *Expert Panel* to express interest in providing a presentation. I have also written to Minister Chong to say that UBCM would be pleased to work collaboratively on the *Revenue Sources Review*. The Executive will also consider options to ensure that the perspective of local government with regard to business taxation and local government revenue is both heard and understood. UBCM will keep watch on both reviews as they get underway, and will provide updates as substantive information becomes available.

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