

**TAX COMPETITION AND THE FISCAL UNION:
BALANCING COMPETITION AND HARMONIZATION IN CANADA
Proceedings of a Symposium, June 2000**

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Session 1 Provincial Reform of Personal Income Tax

Alberta's Single Rate Tax System Norman Weight

Foreword

Stoyko prepared an initial report of the conference and helped in other ways. Final

List of Contributors

Richard Bird is Adjunct Professor, Institute

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Ministry of Finance, Government of Ontario

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and the Economic Director, Centre

ALBERTA'S SINGLE TAX SYSTEM

overall taxes were not to increase. This is a

Nancy Wright

I'd like to begin with some background to the

a vehicle of tax increase, so don't worry. Other issues covered were: the impact on the economy e.g. simplicity and transparency; tax

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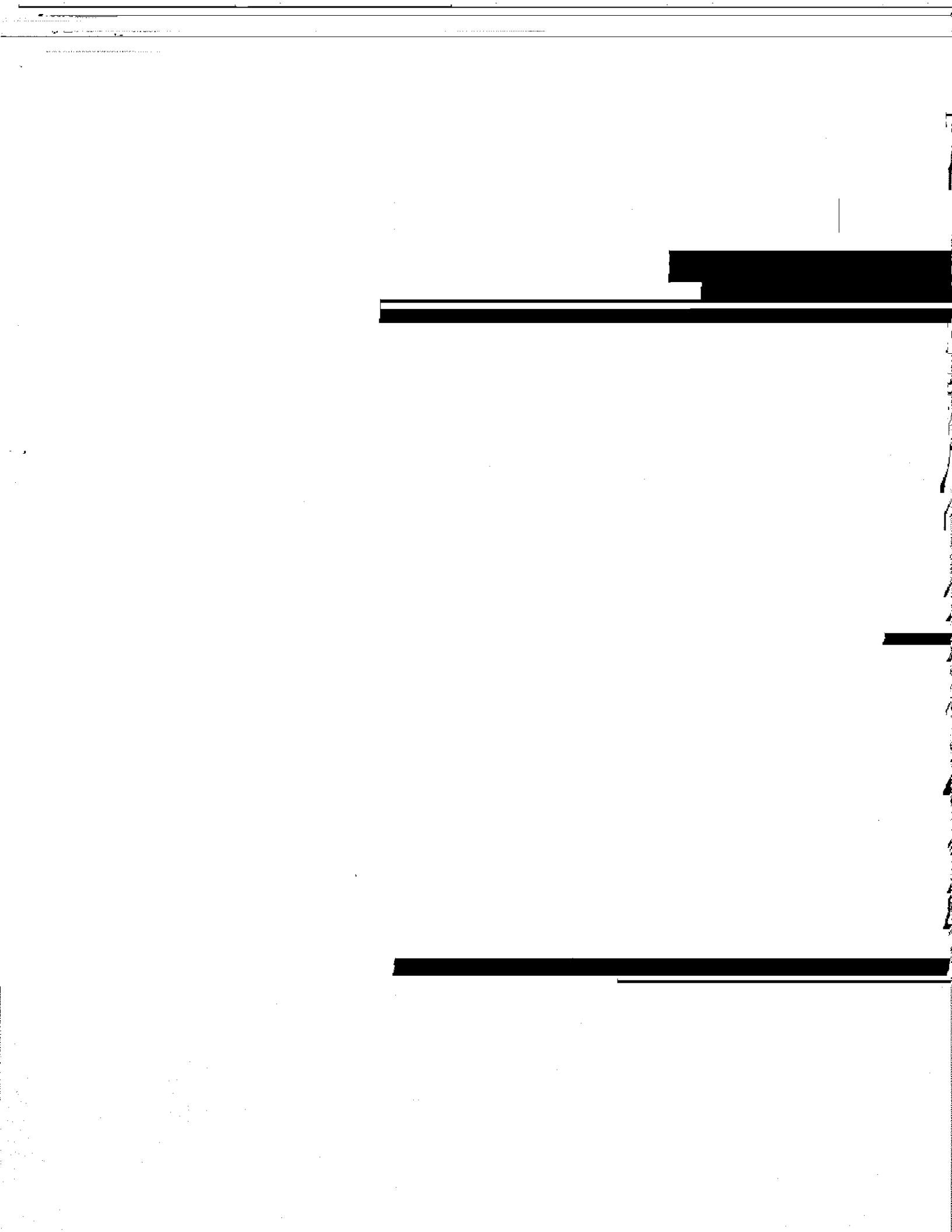
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Table 1

Alberta Tax Review Committee's	New Single Rate system
--------------------------------	------------------------



A PLAN FOR GROWTH AND

system that would be more responsive to the

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[REDACTED]

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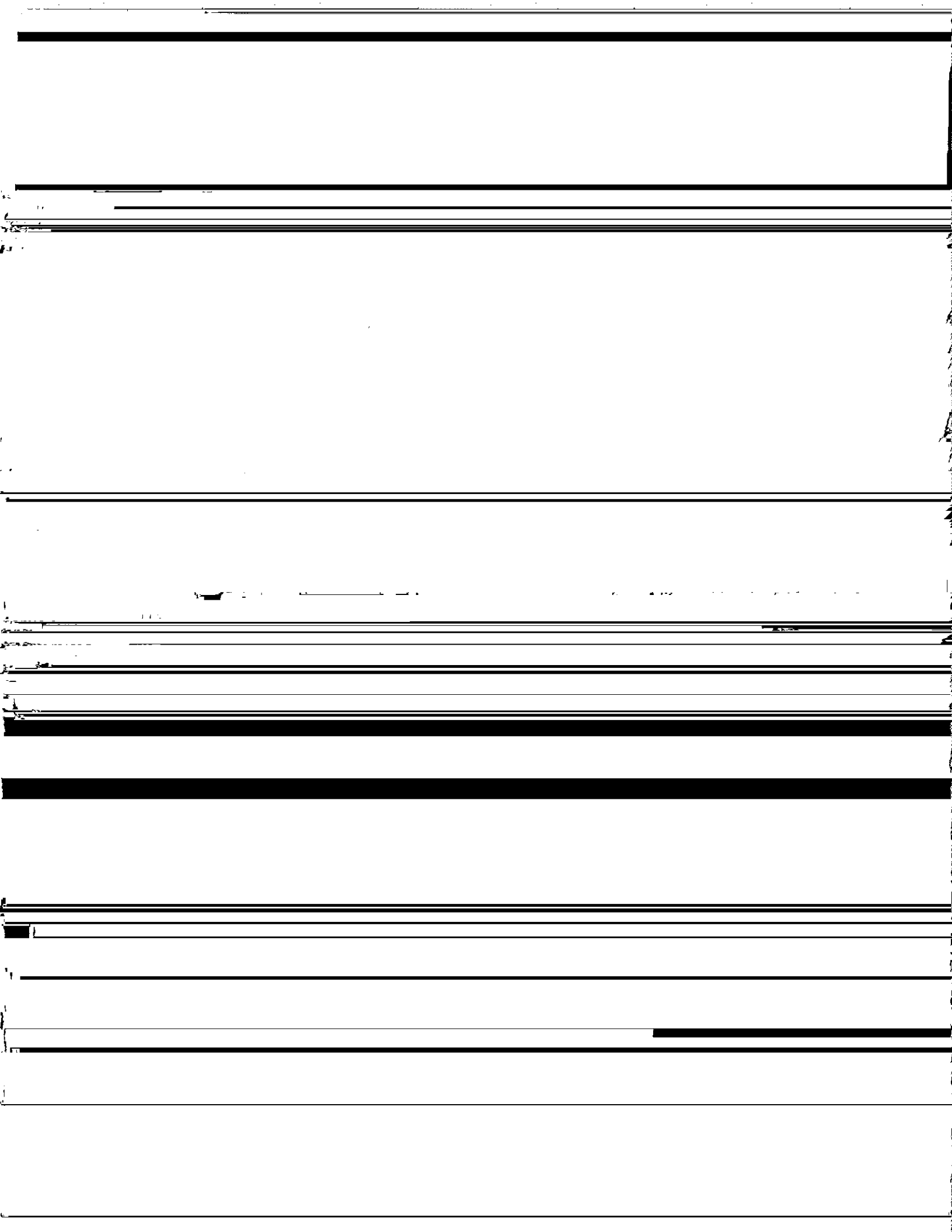
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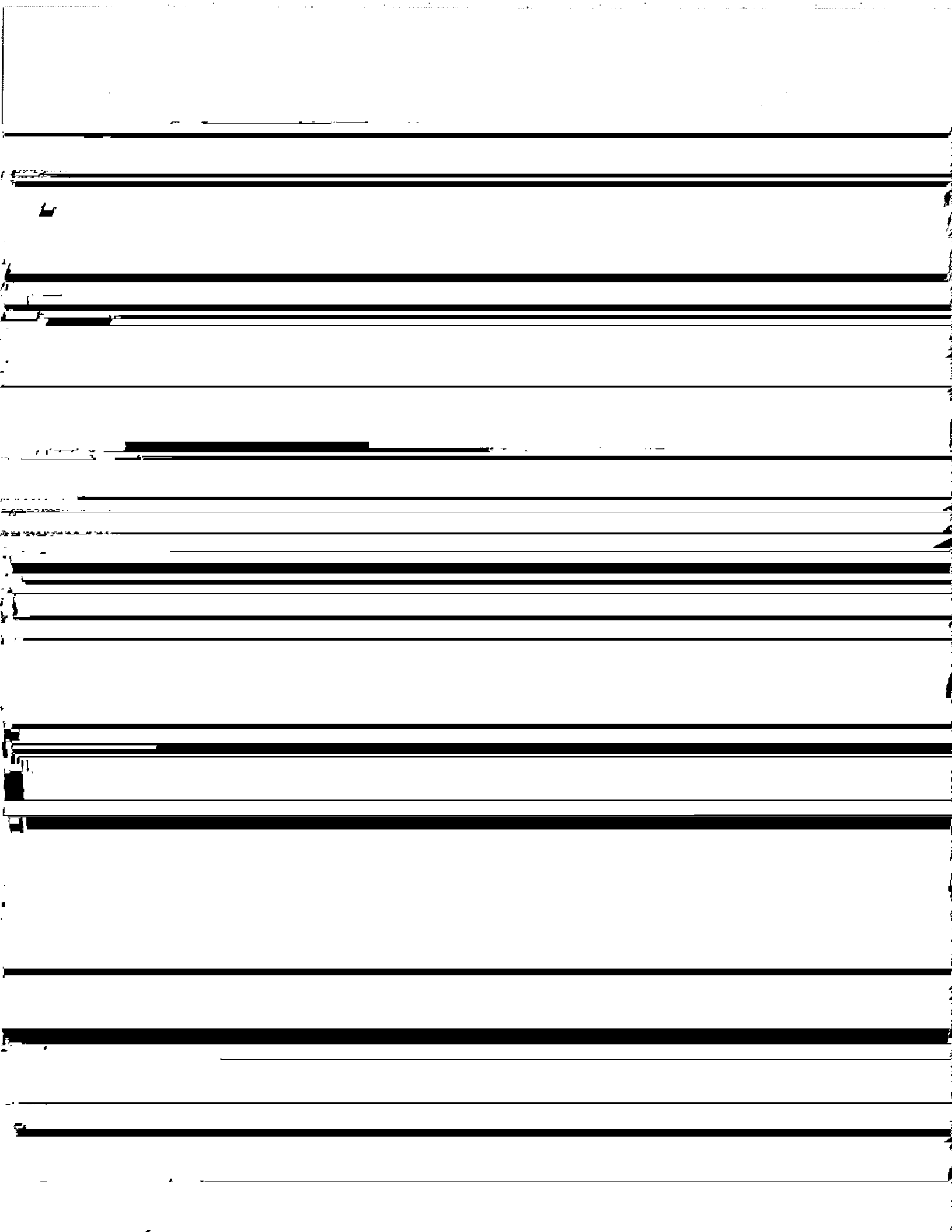
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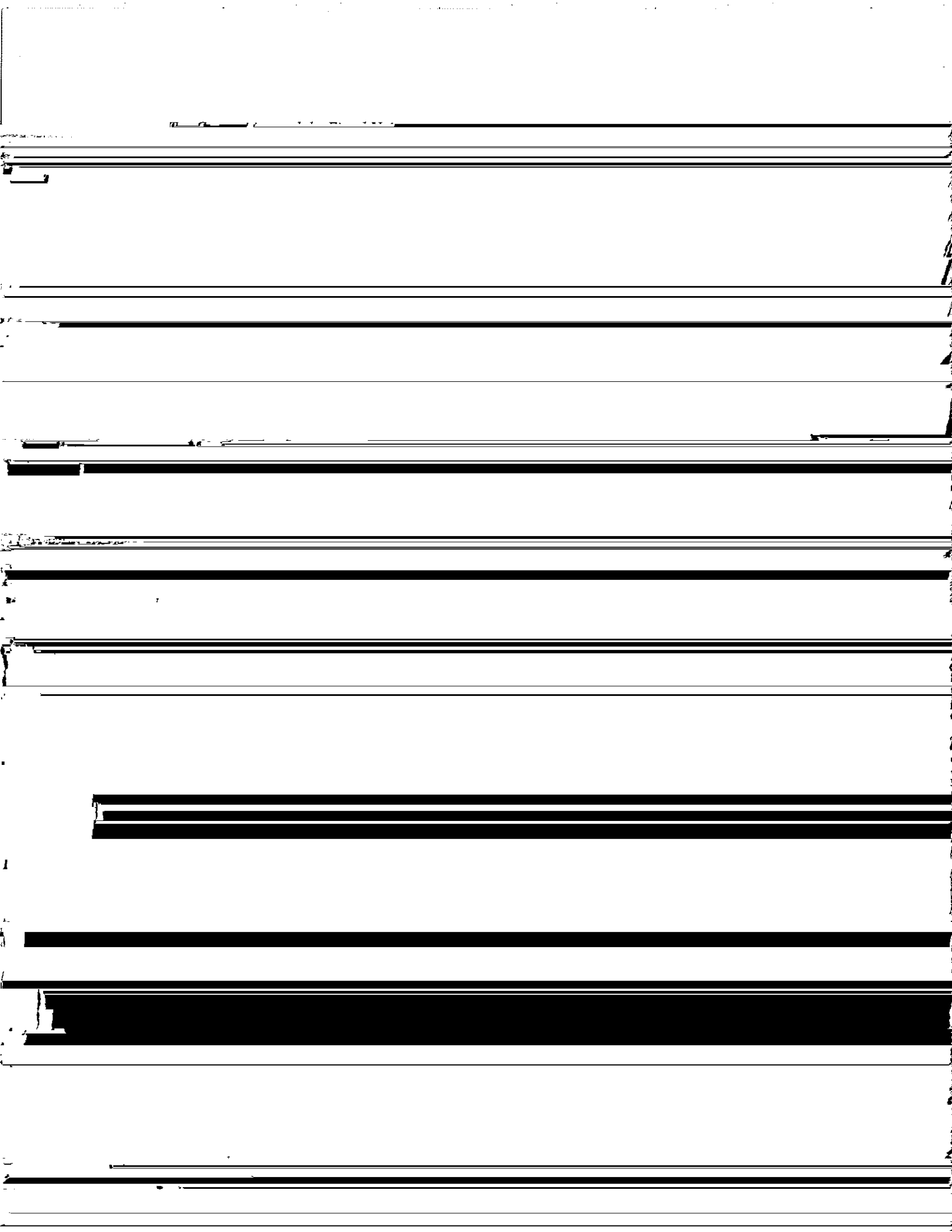
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Tax Competition and the Fiscal Union

§

Tax Competition and the Fiscal Union

Saskatchewan's new tax strategy will

- Under the reformed tax system, this

for taxpayers earning much lower incomes. For

The table is almost entirely obscured by heavy black redaction bars. Only the text "for taxpayers earning much lower incomes. For" is visible at the top right of the page. The table structure is otherwise illegible.

Tax Competition and the Fiscal Union

Tax Competition and the Fiscal Union

APPENDIX A

F.

1

TABLE A.1

Tax Competition and the Fiscal Union

IDENTITY IN

Decision of the Council of Ministers

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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- Goods that are delivered to a reserve by the retailer remain exempt from tax

Real Estate Fees

Figure 1

Saskatchewan Sales Tax Credit

Quarterly Payment Families 1997-1998

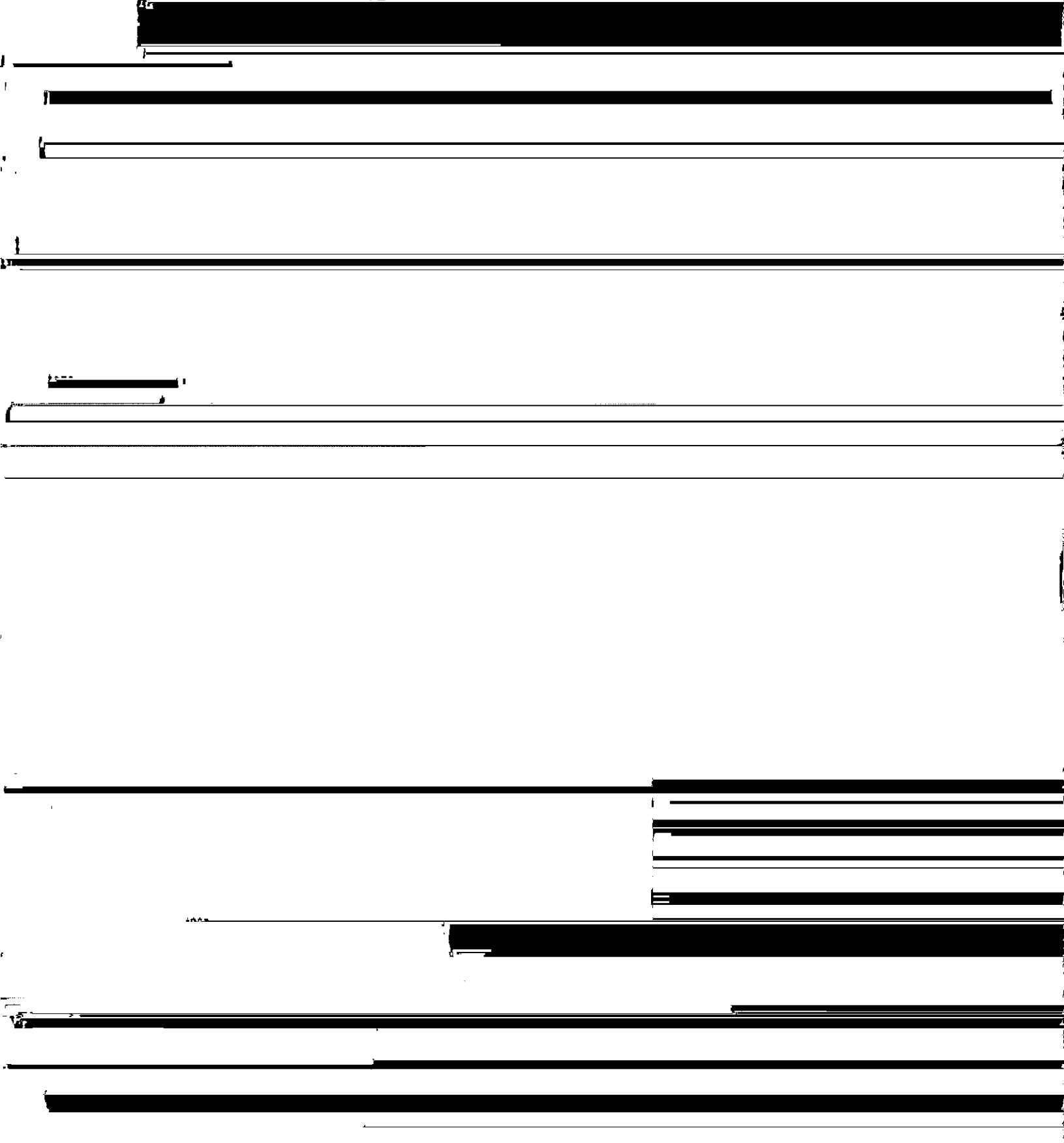


Figure 3

**\$443 Million Personal Income Tax Savings
Distribution by Income Bracket**

\$35,000 to \$100,000
45% of tax savings



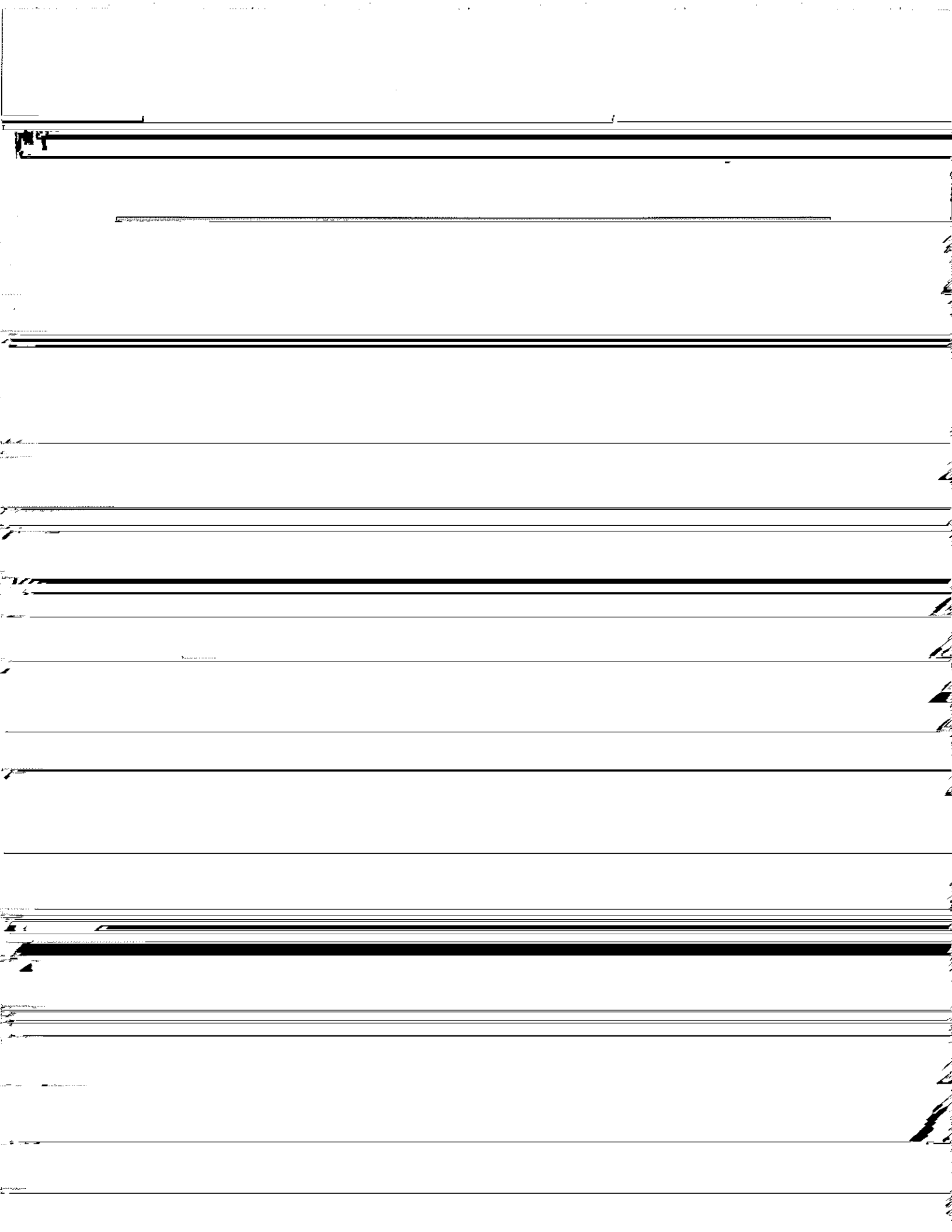


Figure 7

Almond 55,500 Tons per Year Demand for 1990-1991

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

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Figure 9



Figure 11

Comparison of Personal Tax Rates*

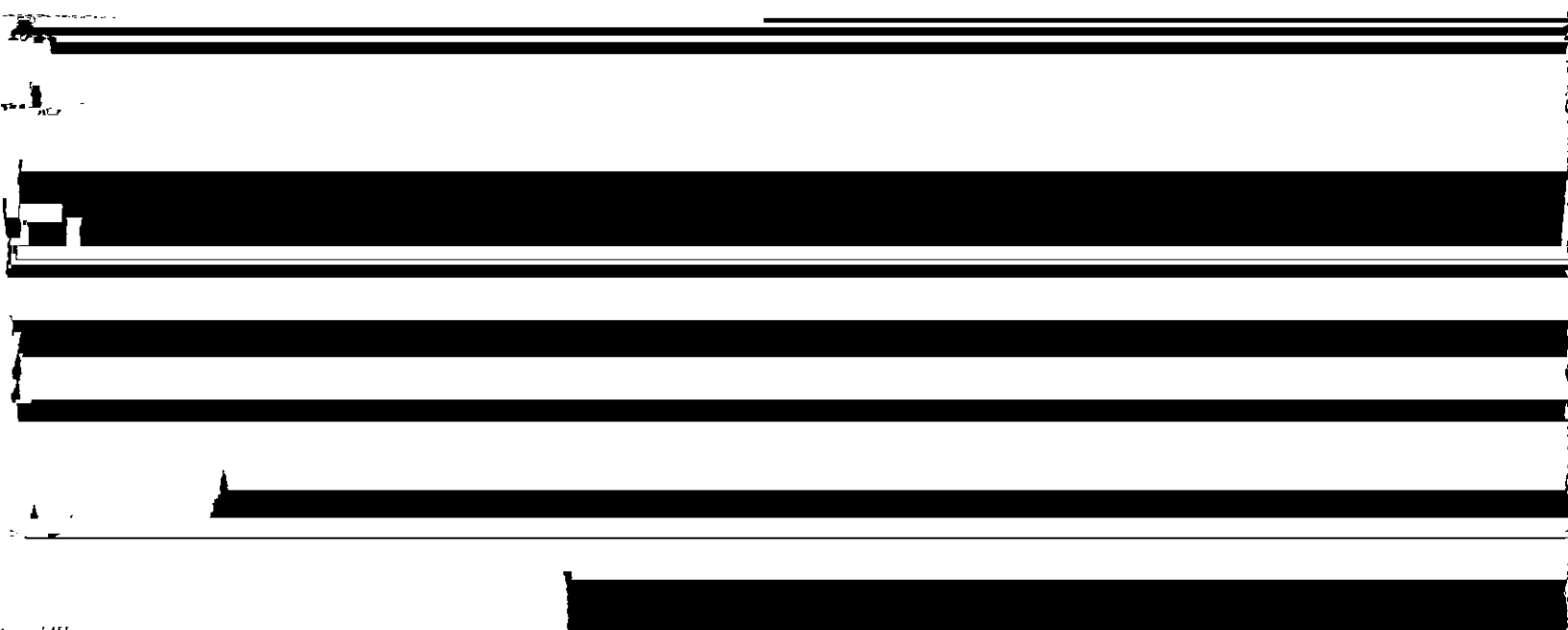


Figure 13

Saskatchewan Income Tax - Current vs. Reform
One Income Family Earning \$50,000 with Two Children

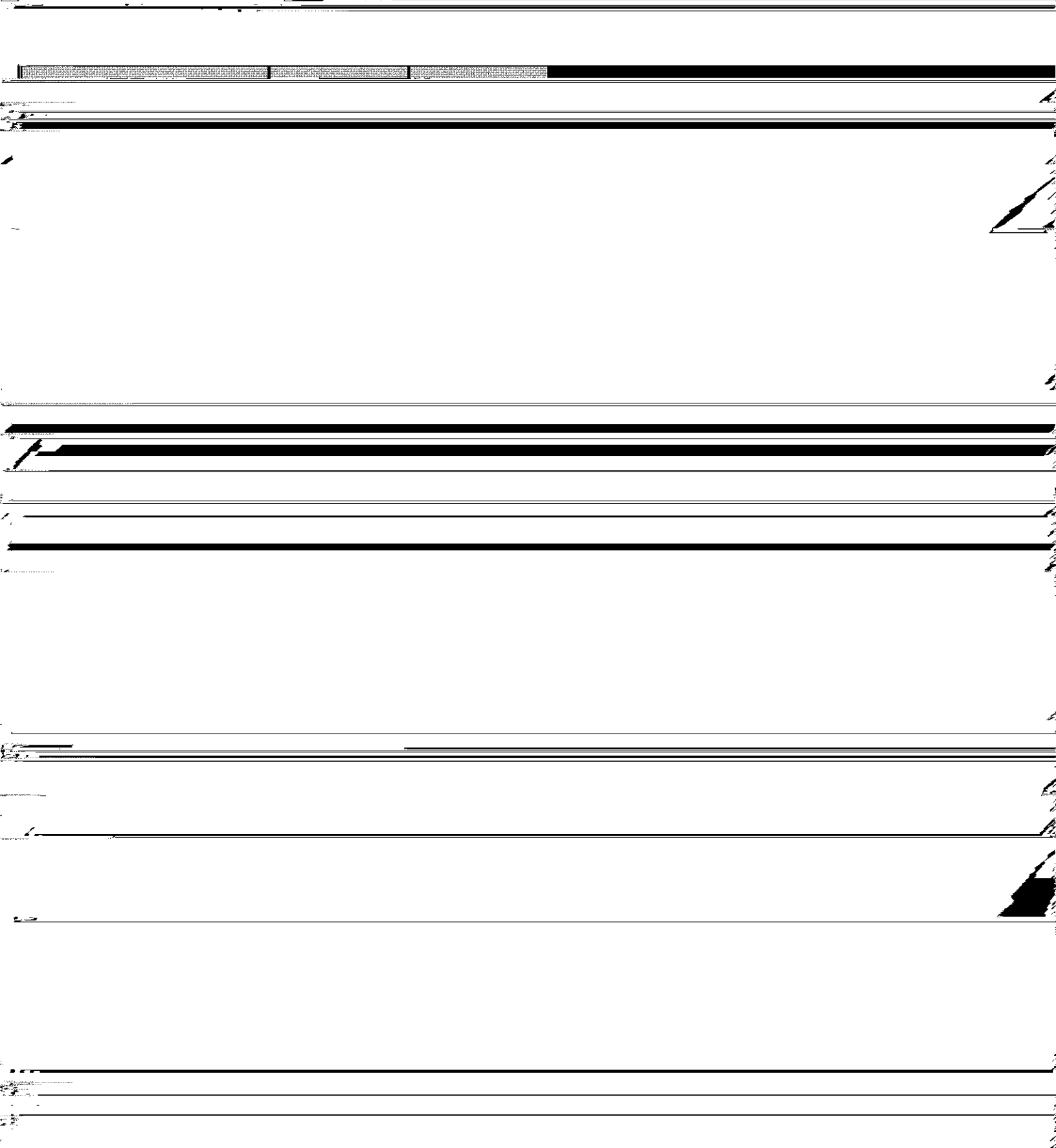
Determination of Taxable Income (federal calculation)
\$50,000



[The following table content is obscured by heavy black redaction bars.]

Figure 14

Fiscal Impact of Tax Reform (millions)



[REDACTED]

[REDACTED]

Figure 16

[REDACTED]

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[REDACTED]

[REDACTED]

Tax Competition and the Fiscal Union

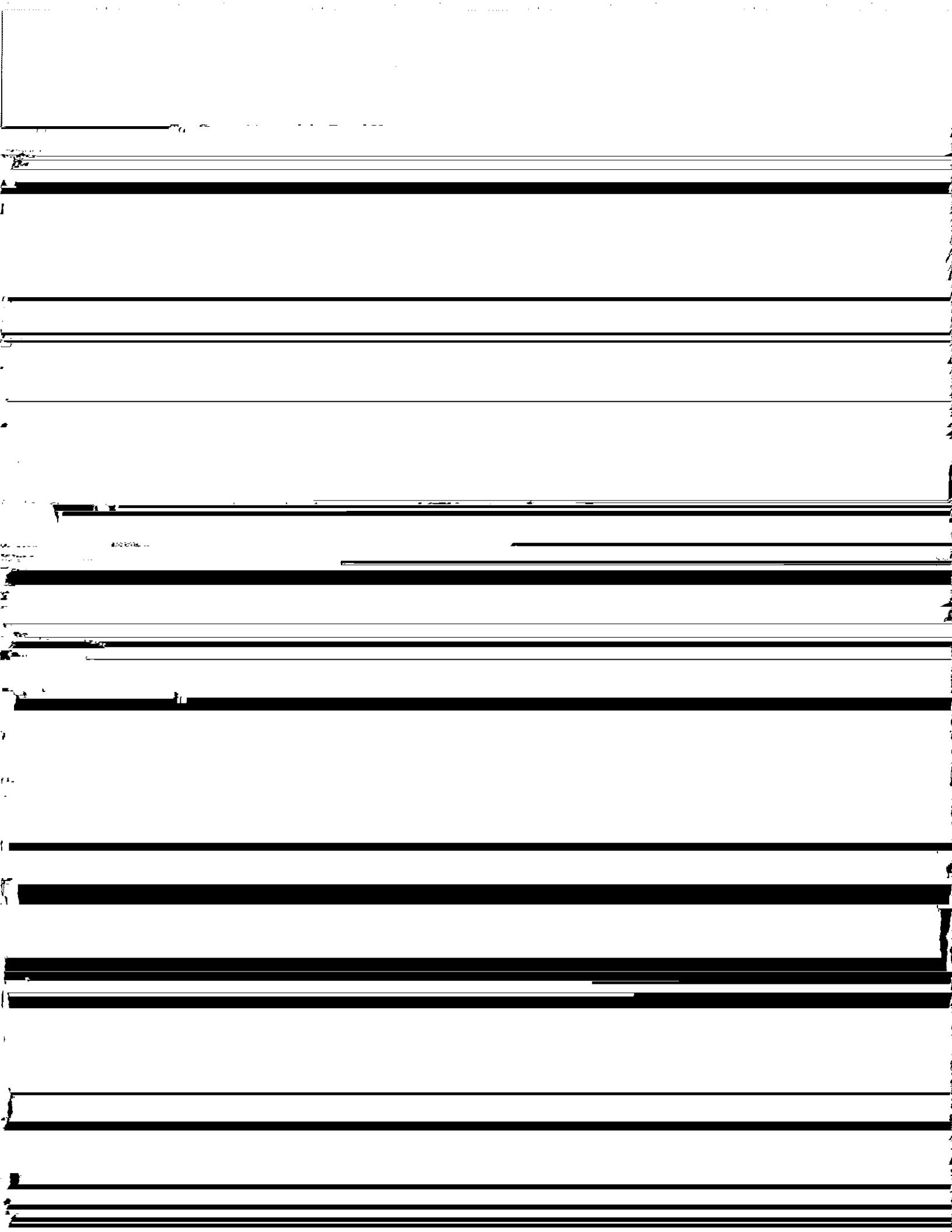
income individuals were provided. While the

was only a beginning to the restoration of

Tax Competition and the Fiscal Union

achieving the expenditure reductions required to
turn around the 1999-2000 deficit pressures

For the most part, the initial move to TONI
announced for the 2000 taxation year, provided



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[Redacted]

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[Redacted]

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Tax Competition and the Fiscal Union

drop in the top marginal rate inherent in the Alberta single tax proposal.

To summarize, in looking at the "prospects" for PIT reform in Ontario, it needs to be

[REDACTED]

SESSION 1 DISCUSSION

taxes. The federal government may have to play a greater role with

respect to offset this either through

UNITED STATES OF AMERICA

DEPARTMENT OF JUSTICE

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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Tax Competition and the Fiscal Union

It is not clear why Quebec chose a

- (1-3) the QTONPI is always more

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- the "Revolution Tranquille" in Quebec

deductions. This approach is similar to the

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to the payroll tax levied on payrolls at a rate varying in 2000 from 2.7% (payroll less than 1 million) to 4.26% (payroll above 5 million).

Integration of transfers and taxes

EVALUATION

Clearly, we cannot conduct a cost-benefit analysis of the QTONPI system since neither item is easily if at all quantifiable. We will, however, use a summary version of the

Tax Competition and the Fiscal Union

of taxes and transfers to attain a more

for all the countries in the world

Tax Competition and the Fiscal Union

Quebec, G. Bernier and P.P. Tremblay
(eds.), Montréal, PUQ, 117-133.

Moore, M.A. (1959), "The Tremblay
Commission" in *Canadian Tax Journal* 7

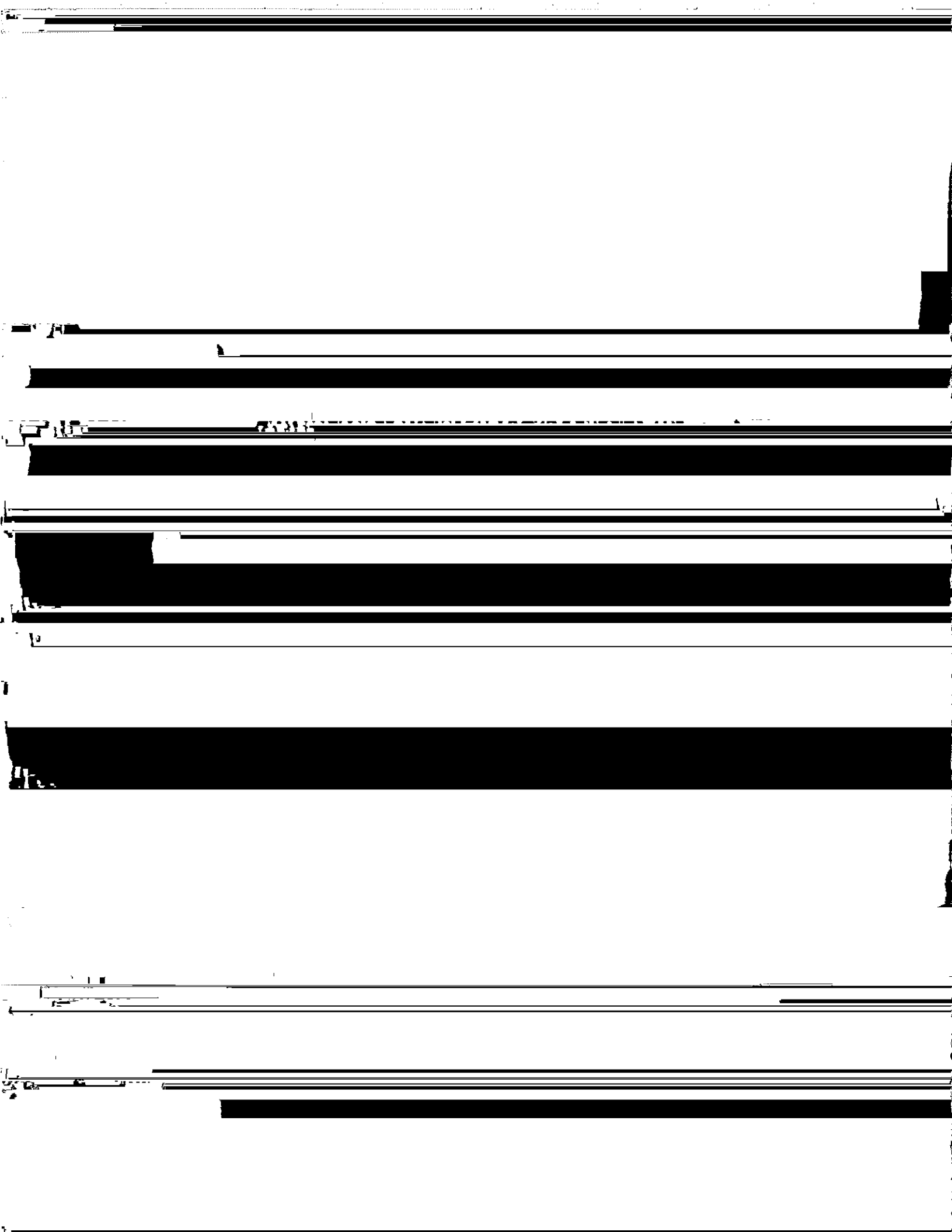
Moore, M.A. 144 140

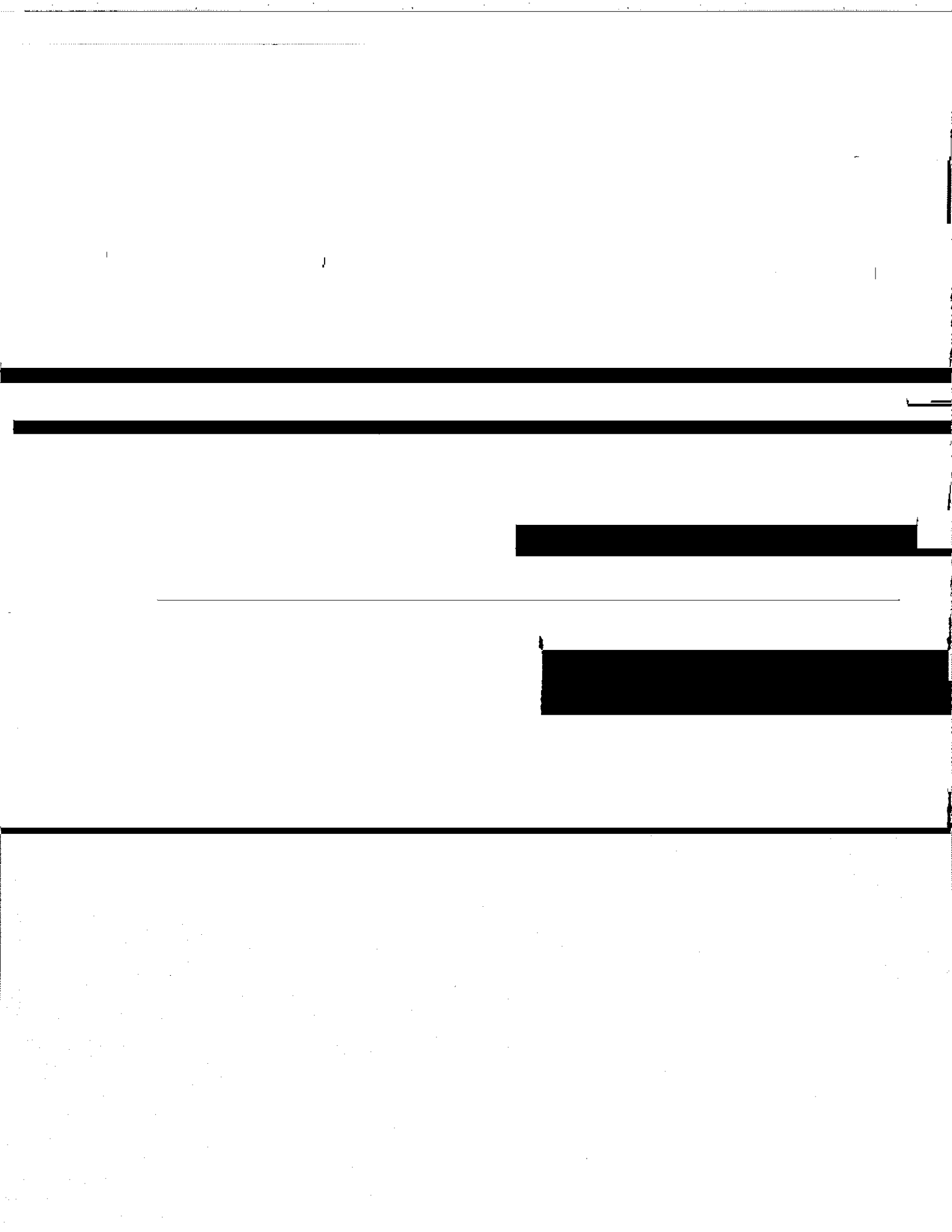
Prog	Task	Chall	Marg	Tax1	Imp	Tax	Inco
	Exen	(Fed.		PTT c	# of	in Q1	Coll

Notes

Source

TABLE 2
QUEBEC'S TAX ON PERSONAL INCOME
A CHRONOLOGY OF KEY EVENTS, 1954-1999





**PIT HARMONIZATION: AN
ECONOMIST'S VIEW**

Robin Boadway

tax system – either base or rate structure – and
the PIT harmonization must allow for legitimate
differences in opinion about that.

Tax Competition and the Fiscal Union

that department has a long history of...

...the same way as...

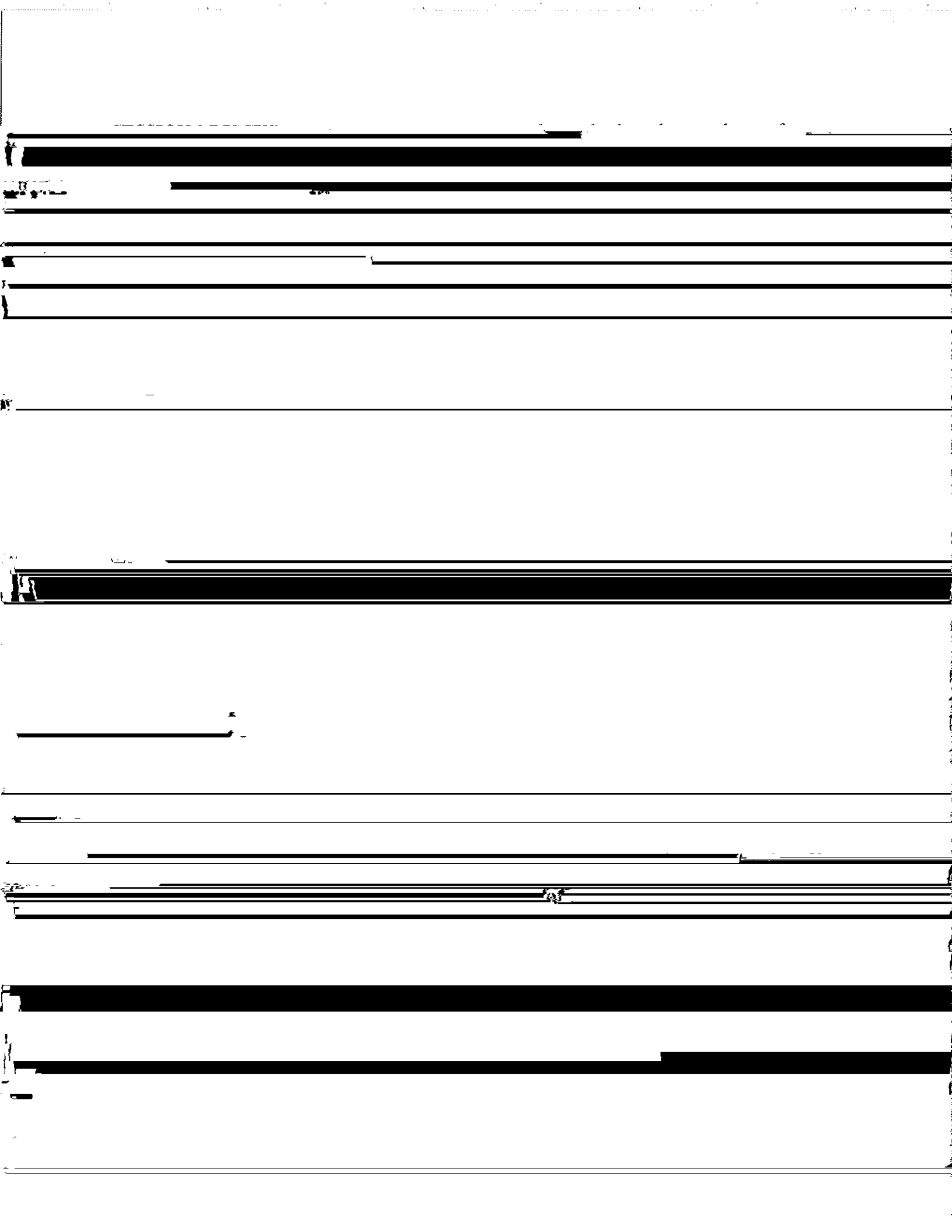
1

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- Preserves the ability of provinces to pursue their own legitimate objectives, including redistributive ones.
- Enables the federal government to

which led to excessive use of credits and other special provincial measures.

The reforms retain a common base, albeit



**BUSINESS TAXATION AND THE
PROVINCES: CURRENT REALITIES,
NORTH AMERICAN COMPETITION
AND "A MODEST PROPOSAL"**

**II BUSINESS TAX COMPETITION: DO
BORDERS MATTER AND DOES IT
MATTER WHETHER THEY
MATTER?**

Tax Competition and the Fiscal Union

regard throughout the 1970's, with the
purchasing power of real private disposable
income in Canada relative to the U.S. rising to

responses than this rather banal definition might
suggest. A mere uttering of the word almost

Tax Competition and the Fiscal Union

other, which benefits the residents of the other region. If each region's government is concerned only with the welfare of its own residents, and therefore does not take account of this external effect when setting its tax rates, then we have

same degree. Of course in terms of factors of production, it is commonly held that capital is more mobile than labour, and that skilled labour is in turn more mobile than unskilled labour.

Tax Competition and the Fiscal Union

John Helliwell and Ross McKittrick investigate this issue in a recent article.⁸ They argue that if

Aside from the question of whether or not capital is mobile across borders, recent research

Tax Competition and the Fiscal Union

help overcome the inefficiencies arising from
the commitment problem. Thus, commitment

This very brief overview of some of the
research relating to tax competition perhaps

Tax Competition and the Fiscal Union

While certain "income competition" is the

[REDACTED]

[REDACTED]

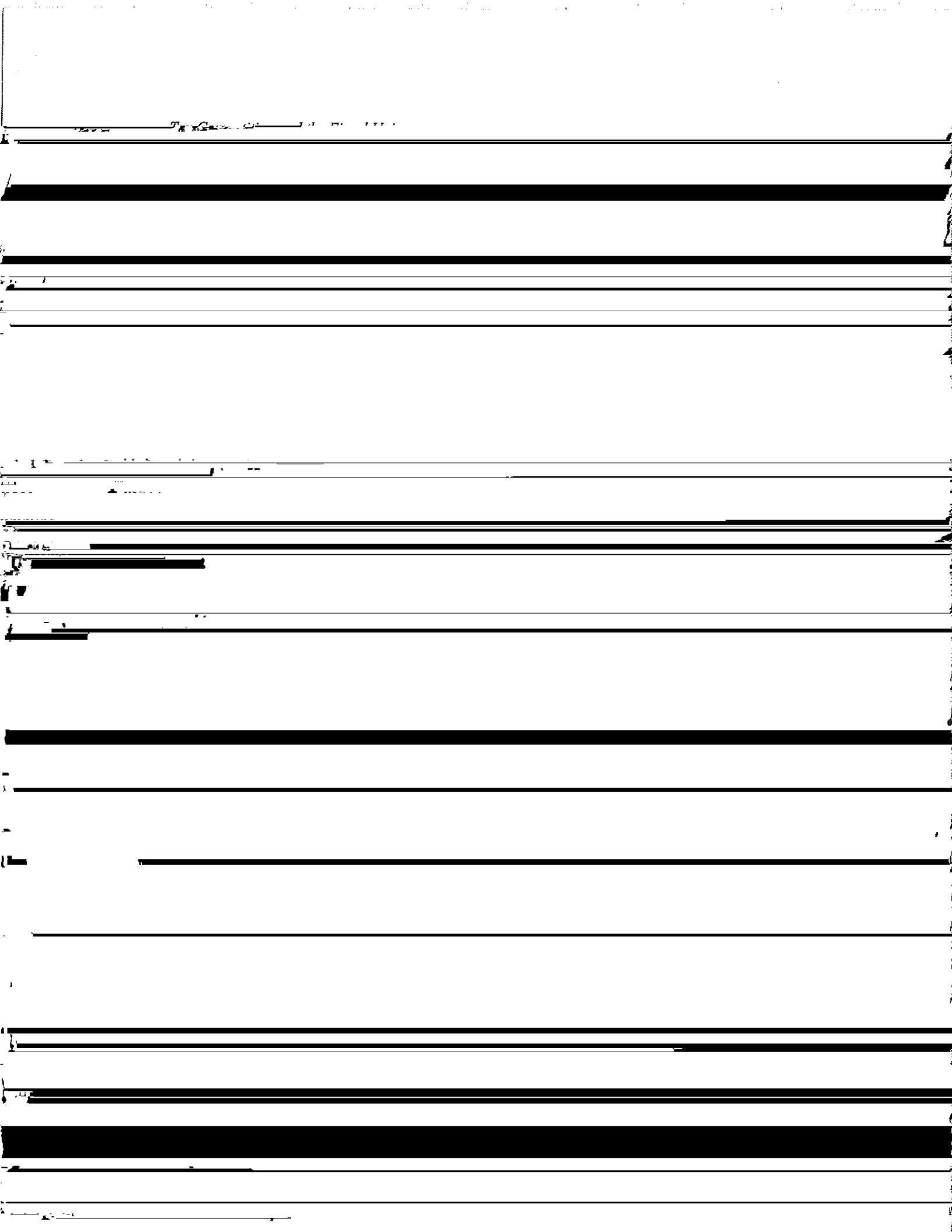
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Tax Competition and the Fiscal Union

9%, with the rest of the provinces with rates in

of operating a "non-competitive" business tax



Tax Competition and the Fiscal Union

caused by taxation generate efficiency costs by reallocating resources from productive uses to less productive uses. The efficiency cost of capital taxes is a measure of the value of the

costs of capital taxes by almost 60%, lowering the costs to \$250 per family per year, half of the costs borne by Albertans.

TABLE 1.1. THE EFFICIENCY COST OF CAPITAL TAXES

Year	Alberta	Canada
1980	1,000	1,000
1981	1,000	1,000
1982	1,000	1,000
1983	1,000	1,000
1984	1,000	1,000
1985	1,000	1,000
1986	1,000	1,000
1987	1,000	1,000
1988	1,000	1,000
1989	1,000	1,000
1990	1,000	1,000
1991	1,000	1,000
1992	1,000	1,000
1993	1,000	1,000
1994	1,000	1,000
1995	1,000	1,000
1996	1,000	1,000
1997	1,000	1,000
1998	1,000	1,000
1999	1,000	1,000
2000	1,000	1,000
2001	1,000	1,000
2002	1,000	1,000
2003	1,000	1,000
2004	1,000	1,000
2005	1,000	1,000
2006	1,000	1,000
2007	1,000	1,000
2008	1,000	1,000
2009	1,000	1,000
2010	1,000	1,000
2011	1,000	1,000
2012	1,000	1,000
2013	1,000	1,000
2014	1,000	1,000
2015	1,000	1,000
2016	1,000	1,000
2017	1,000	1,000
2018	1,000	1,000
2019	1,000	1,000
2020	1,000	1,000
2021	1,000	1,000
2022	1,000	1,000
2023	1,000	1,000
2024	1,000	1,000
2025	1,000	1,000
2026	1,000	1,000
2027	1,000	1,000
2028	1,000	1,000
2029	1,000	1,000
2030	1,000	1,000

Tax Competition and the Fiscal Union

ed heterogeneity attributes and contains capital

22 Dec 11 11:44:44 AM EST 10/1/11

Tax Competition and the Fiscal Union

[The remainder of the page is heavily redacted with thick black horizontal bars, obscuring all text.]

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cost of all of the inputs used in production. In its simplest form this requires the deduction of all

not taxing other factors of production, such as labour. This introduces inefficiencies by

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~~Dixd and Mintz propose that the progressivity of the capital income tax and another distortion be used~~

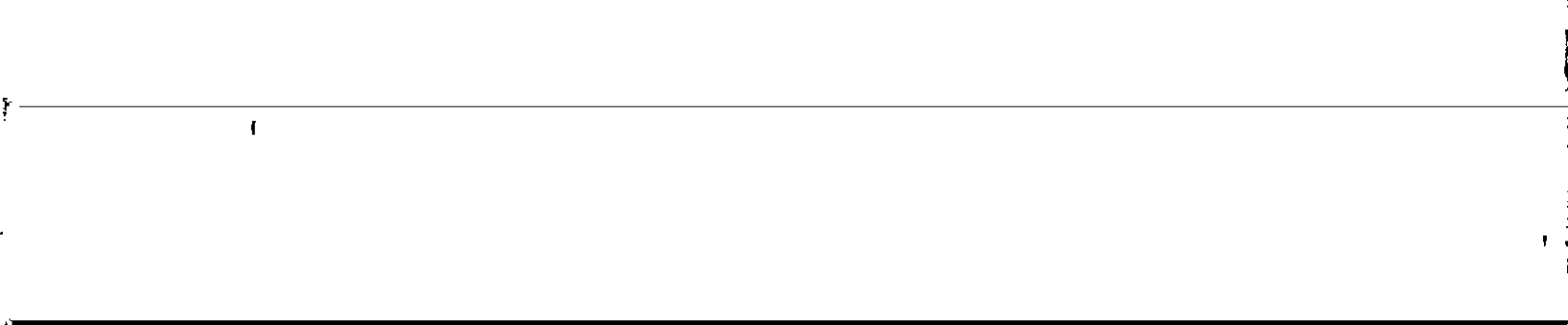
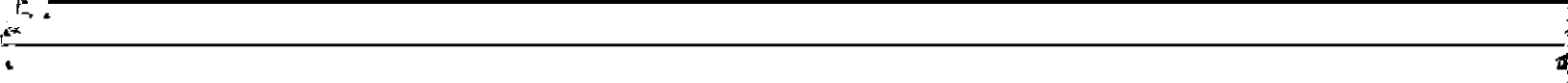
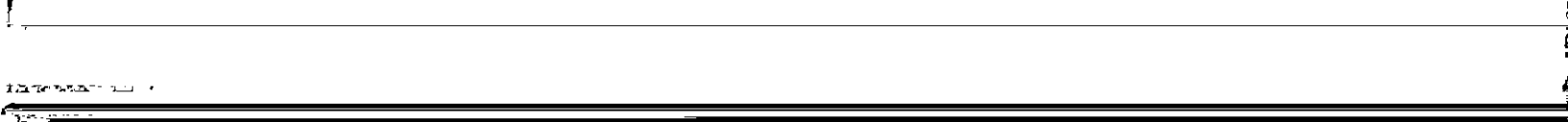


Table I: Total Statutory Corporate Income Tax Rates, Selected OECD Countries, 1996 and 2000 (percent)

	July 31, 1996	January 1, 2000	Direction of Change	Intentions (Year)
--	---------------	-----------------	---------------------	-------------------

Table II:

Marginal Effective Tax Rates on Capital (percent)

	Canada	United States	United Kingdom	Germany	France	Italy	Japan
--	---------------	----------------------	-----------------------	----------------	---------------	--------------	--------------

ENVIRONMENTAL TAXATION IN

in the title of this paper is that there is no race at
all. Canada, Canada is far from a world leader

environmental quality. To help improve environmental quality, taxes can be preferable to regulatory policies especially when introduced as a package of revenue neutral policies. This is called environmental tax shifting. The potential for using environmental taxes in Canada is considered by examining general policies such as corporate tax reform, a specific tax shifting example involving the federal fuel excise tax, and examples of possible environmental taxes on products or pollutants. Comments on challenges for the design and implementation of

level ozone and particulates. Soils are contaminated with salts from irrigation and toxic compounds borne by the atmosphere and water. Global concerns include the reduction in stratospheric ozone and rising emissions of carbon dioxide and other greenhouse gases.

Figure 1 illustrates the emissions of major air pollutants (sulphur and nitrogen oxides and carbon dioxide) from OECD countries in the early 1990s as a ratio of their gross domestic product (GDP), expressed in US dollars.

Total primary resources plus manufacturing make up 36% of total carbon dioxide emissions, transportation and utilities 29%, while the total

carbon dioxide and are energy intensive relative to other industries.

© Lovelace and Dawson (1998) base

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natural gas, paper and allied products, non-

their pollution intensity. The table indicates that

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pollution-intensive industries are faced with the
high effective rates. This means that the

direct regulation of pollutants, polluting
activities, or pollution abatement technologies

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theoretical economics literature.¹¹ The other

water and air pollution control). But the list is

Tax Competition and the Fiscal Union

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

Tax Competition and the Fiscal Union

and provides some suggestions for meeting and overcoming them.¹⁷

Adjustment Costs and Sector Specific Impacts

The introduction of a common tax system in

income people's budget, they own pollution-intensive capital (old refrigerators, furnaces, and cars), and they face sizeable credit constraints in replacing their capital with newer, less pollution-intensive durables. An ETS, depending on what taxes are reduced, could

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...the law of the fiscal union...

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Olewiler, N. and K. Dawson (1998) *Analysis of
National Pollutant Release Inventory Data*

United States, Environmental Protection Agency
(1997) *The United States Experience with*

kg or tonnes/US\$1000

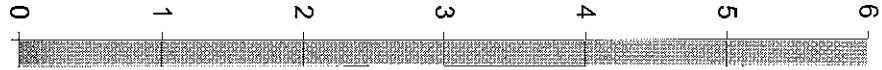


Figure 2: Canadian Emissions of Key Air Pollutants,

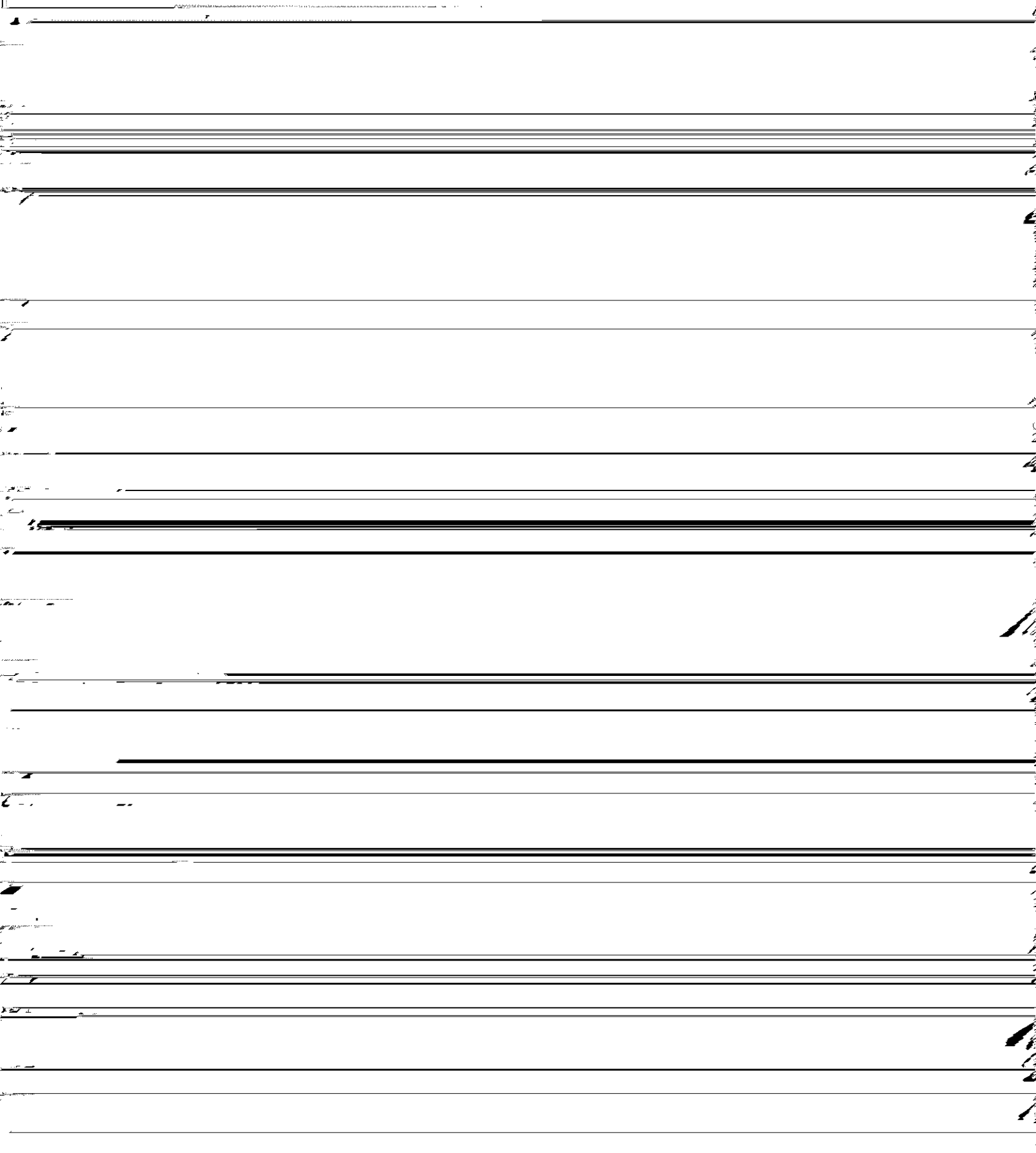


Table 1 Indicators of Pollution Intensity of Canadian Industries, 1990

Industry	Carbon Dioxide Emissions	Fossil Fuel Consumption
----------	-----------------------------	----------------------------

Forestry

2.700

Total Primary Resources

60,486

923

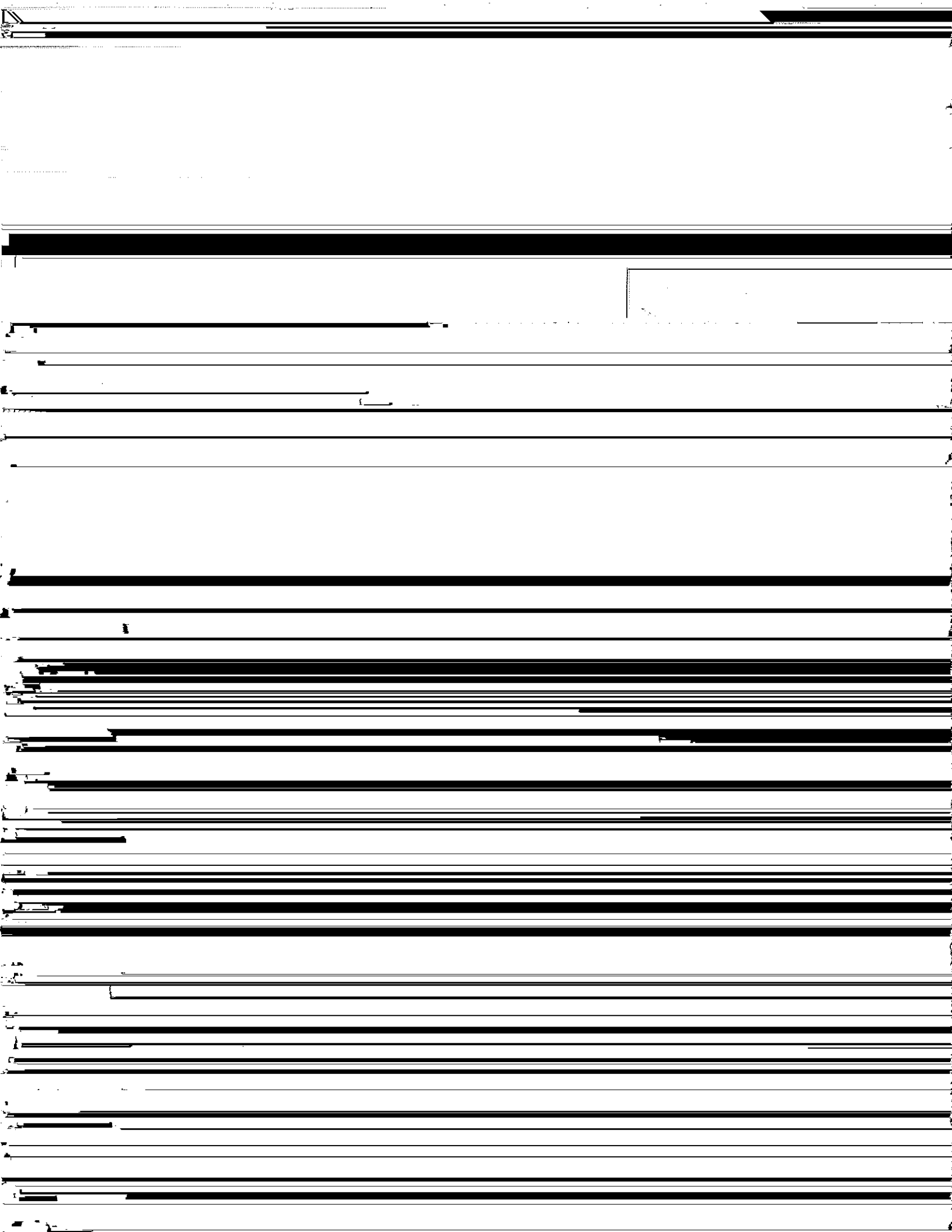


Table 3 Pollution Intensity of Canadian Industries

High

Medium

Low

Chemicals

Metal Fabricating

Financial Services

Table 6

Environmentally Related Taxes in Selected OECD Countries, 1994 to 1997

Unleaded Gasoline	Non- automotive	Ozone- depleting	Other Goods and	Deposit- refund
----------------------	--------------------	---------------------	--------------------	--------------------

**SALES TAX HARMONIZATION
ISSUES**

Richard M. Bird

Indeed, such issues arise with respect not solely to general sales taxes but also with respect to other indirect taxes such as excises on fuel and tobacco. The tobacco tax story is particularly well-known. To reduce smuggling

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more in the future than we seem to have done in

by cost-reducing benefits to such non-residents

[REDACTED]

[REDACTED]

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"cross border shopping." Traditionally, this has been a vertical interaction with the state and

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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competitive “incentives” into their indirect tax structures. While I hope this exceedingly dark

sales across not just provincial but international borders are likely to increase in the near future

Tax Competition and the Fiscal Union

for example, uncredited taxes on production inputs may find a new rationale (Mikesell, 1999). To the extent business taxation remains

REFERENCES

J. Gregory Ballentine and Wayne R. Thirsk

(1999) *Journal of Public Economics*, 71, 1-15

Tax Competition and the Fiscal Union

Co-ordination," in R.L. Mathews, ed., *State
and Local Taxation (Copenhagen: Aarhus)*

Vito Tanzi (1996) "Globalization, Tax
Competition and Fiscal Union"

SESSION 3 DISCUSSION

1. Identify the main idea of the passage.

100

2. What evidence from the text supports your answer?

3. How does the author develop the main idea?

4. What is the author's purpose in writing this passage?

5. How does the author use language to create a specific mood or tone?

6. What is the significance of the title?

7. How does the author use rhetorical devices to persuade the reader?

8. What is the author's attitude toward the subject?

9. How does the author use the structure of the passage to support the main idea?

10. What is the author's main argument?

11. How does the author use the text to support the main idea?

12. What is the author's main purpose in writing this passage?

13. How does the author use language to create a specific mood or tone?

14. What is the significance of the title?

15. How does the author use rhetorical devices to persuade the reader?

16. What is the author's attitude toward the subject?

17. How does the author use the structure of the passage to support the main idea?

18. What is the author's main argument?

19. How does the author use the text to support the main idea?

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22. What is the significance of the title?

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24. What is the author's attitude toward the subject?

25. How does the author use the structure of the passage to support the main idea?

26. What is the author's main argument?

27. How does the author use the text to support the main idea?

28. What is the author's main purpose in writing this passage?

29. How does the author use language to create a specific mood or tone?

30. What is the significance of the title?

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32. What is the author's attitude toward the subject?

33. How does the author use the structure of the passage to support the main idea?

34. What is the author's main argument?

35. How does the author use the text to support the main idea?

36. What is the author's main purpose in writing this passage?

37. How does the author use language to create a specific mood or tone?

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40. What is the author's attitude toward the subject?

41. How does the author use the structure of the passage to support the main idea?

42. What is the author's main argument?

43. How does the author use the text to support the main idea?

**TAX COORDINATION AND
COMPETITION: LESSONS FROM
THE US EXPERIENCE**

Howell H. Zee

Thank you very much. I must confess at the outset I'm a bit puzzled by my own presence

talk about that part that's relevant for this conference, that is the US situation.

Any discussion of tax competition and tax harmonization in the fiscal union that is the United States cannot avoid taking note of two of its most prominent features. First is the autonomous taxing power of both the state and local governments. In the US essentially there

Tax Competition and the Fiscal Union

the bottom regarding sales tax (but not income

from lower state and local income taxes

Tax Competition and the Fiscal Union

limit of the scope of competition for savings among states. In other words, states are less

All of these considerations to limit competition: the relative small share of income

Table 1. United States: Tax Revenue by Type of Tax and Level of Government 1969/70-1994/95

	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
Total																										
Federal																										
State and local																										
State																										
Local																										
Income																										
Corporate																										
Personal																										
Excise																										
Property																										
Sales																										
Other																										

Table 2. United States: Rates of State Income and General Sales Taxes, 1970-2000
(In percent)

State	1970	1980	1990	2000
Alabama	5.0	5.0	5.0	5.0
Alaska	0.0	0.0	0.0	0.0
Arizona	4.7	4.7	4.7	4.7
Arkansas	5.0	5.0	5.0	5.0
California	4.7	4.7	4.7	4.7
Colorado	4.7	4.7	4.7	4.7
Connecticut	5.0	5.0	5.0	5.0
Delaware	5.0	5.0	5.0	5.0
District of Columbia	5.0	5.0	5.0	5.0
Florida	5.0	5.0	5.0	5.0
Georgia	5.0	5.0	5.0	5.0
Hawaii	0.0	0.0	0.0	0.0
Idaho	4.7	4.7	4.7	4.7
Illinois	5.0	5.0	5.0	5.0
Indiana	5.0	5.0	5.0	5.0
Iowa	5.0	5.0	5.0	5.0
Kansas	5.0	5.0	5.0	5.0
Kentucky	5.0	5.0	5.0	5.0
Louisiana	5.0	5.0	5.0	5.0
Maine	5.0	5.0	5.0	5.0
Maryland	5.0	5.0	5.0	5.0
Massachusetts	5.0	5.0	5.0	5.0
Michigan	5.0	5.0	5.0	5.0
Minnesota	5.0	5.0	5.0	5.0
Mississippi	5.0	5.0	5.0	5.0
Missouri	5.0	5.0	5.0	5.0
Montana	4.7	4.7	4.7	4.7
Nebraska	5.0	5.0	5.0	5.0
Nevada	4.7	4.7	4.7	4.7
New Hampshire	5.0	5.0	5.0	5.0
New Jersey	5.0	5.0	5.0	5.0
New Mexico	4.7	4.7	4.7	4.7
New York	5.0	5.0	5.0	5.0
North Carolina	5.0	5.0	5.0	5.0
North Dakota	4.7	4.7	4.7	4.7
Ohio	5.0	5.0	5.0	5.0
Oklahoma	5.0	5.0	5.0	5.0
Oregon	4.7	4.7	4.7	4.7
Pennsylvania	5.0	5.0	5.0	5.0
Rhode Island	5.0	5.0	5.0	5.0
South Carolina	5.0	5.0	5.0	5.0
South Dakota	4.7	4.7	4.7	4.7
Tennessee	5.0	5.0	5.0	5.0
Texas	5.0	5.0	5.0	5.0
Utah	4.7	4.7	4.7	4.7
Vermont	5.0	5.0	5.0	5.0
Virginia	5.0	5.0	5.0	5.0
Washington	4.7	4.7	4.7	4.7
West Virginia	5.0	5.0	5.0	5.0
Wisconsin	5.0	5.0	5.0	5.0
Wyoming	4.7	4.7	4.7	4.7

Range
Median
Mean
Standard
Coefficient

Alabar
Alaska
Arizona
Arkans
Califor
Colora
Connec
Delaw
Distric
Florida
Georgi
Hawai
Idaho
Illinois
Indian
Iowa
Kansas
Kentuc
Louisia
Maine
Maryla
Massac
Michig
Minnes
Mississ
Missouri



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Tax Competition and the Fiscal Union

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Tax Competition and the Fiscal Union

time that they're going to need revenues for their expenditures. Now some of these tax cuts lead to increased revenues, but the decrease in revenues is extending to the poorer provinces because the equalization program is less than it otherwise would be.

this may be a viable future distributionally and in fact it fits kind of well into my region-state concept of Ontario, in which the various regions compete for their own economic policies in North America. But as I said, I don't think it's stable and if it is we haven't yet reached the

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else all taxes are going to be harmonized. But
the Americans say you'll never be able to

**TAX POLICY AND THE NEW
ECONOMY**

economic performance. In addition, depending upon its structure, the tax system explicitly or implicitly achieves a number of social

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trade, meaning specialization in doing what you do best, is helpful in raising living standards.

level of spending, going back to the paradigm of Section 2, the government would continue to

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effects. With the pure income effects there will be a parallel shift of ab and all groups will be better off. With the price effect, group 1 will

2 from ab to ed reflecting both these competing forces. Point d is the same in Figures 1 and 2 since lower taxes on mobile factors of

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in light of "new" economy shocks; and, second, these shocks would, however, necessitate changes in tax policy instruments to achieve any given social and economic objectives.

There are two elements of the shocks that may affect tax policy instruments: higher incomes resulting from positive economic shocks would create an "income" effect, potentially making everyone better off; given increased mobility of certain factors, the "income"

- These measures change the common federal-provincial definition of taxable income, not allowed by either the TCAs or TONI.

This creates three issues:

- the status of Ontario tax collection by the federal government outside the TCA/TONI rules;

the consequences of Ontario's actions for

- There would be many taxpayer queries and

treatment of incomes, benefits and carry-

Figure 1

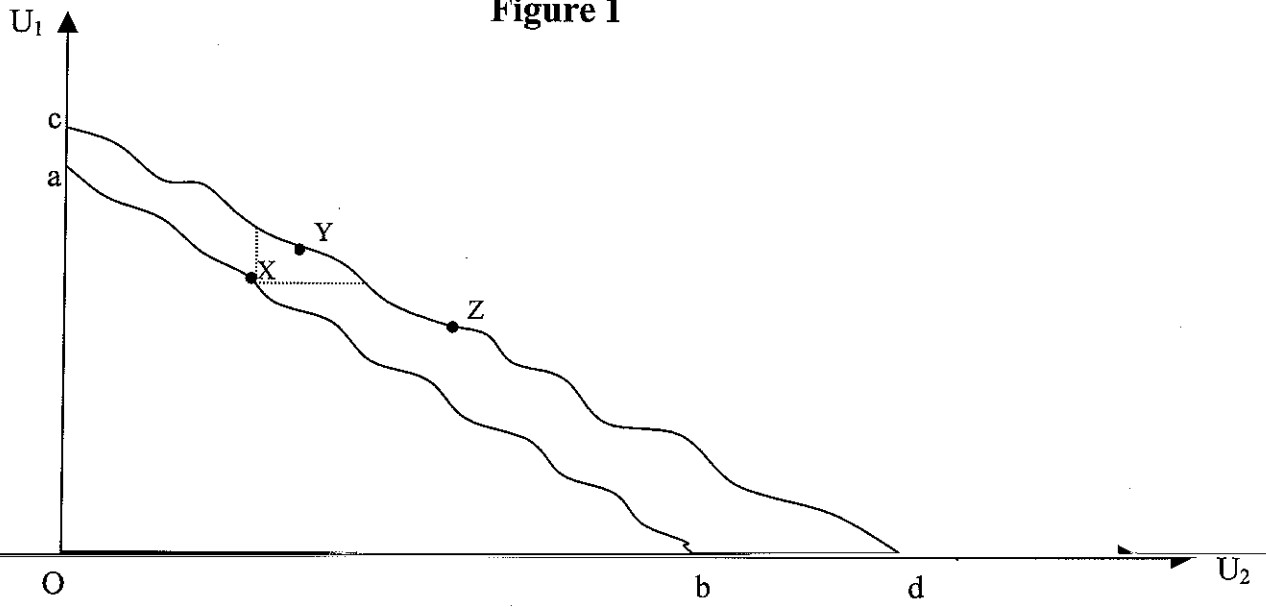
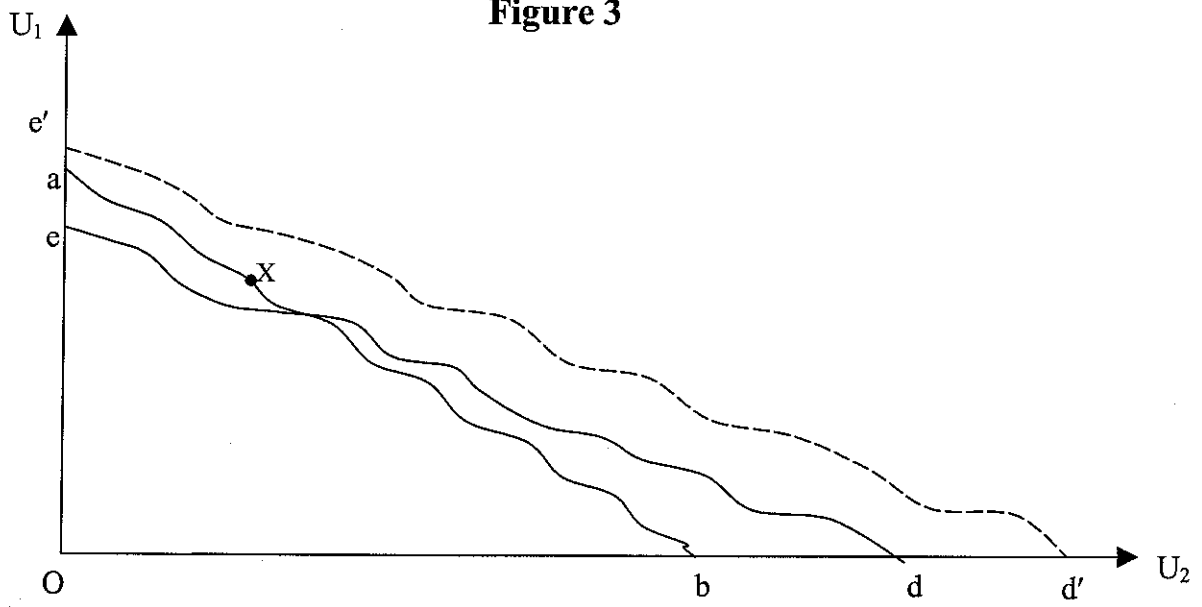


Figure 2

$U_1 \uparrow$



Figure 3



Session Chair, Fred Gorbet:

CONCLUDING REMARKS

and compared the Canadian corporate tax

system to the system in the United States. II.

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Howell Zee's paper talked about the so-called race for the bottom. Despite lots of observations, he did not find evidence of a race for the bottom in the U.S. In fact, what he

observe that with respect to consumption, base broadening is good policy, but as provincial experience has shown, it is not easy to sell to the public.

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provinces. These are benefits that are paid for and accrue to Canadian taxpayers. We should try to preserve the tax collection agreements because they produce big efficiency gains to all

x

SOME CONCLUDING THOUGHTS ON

~~THE FISCAL IMPACT OF THE NOVA SCOTIA MEASURES~~

of Finance, presented the Nova Scotia measures.

In his report on the Committee's findings, the

[REDACTED]

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competition. But it must be admitted that the old system did not prevent wide gaps in rates from opening up among provinces and that tax competition is more important for the corporation income tax than for the personal

nothing that provincial finance ministers hated more than to hear the Federal Minister announce on budget night that provincial taxes will be lower and provincial deficits higher.

One issue that did not seem to give rise to

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gains to 50 per cent; the second would provide for deductions up to \$100,000 per year for capital gains on stock options for research workers; and the third would provide a 30-per-cent bonus deduction on flow through shares for Ontario eligible mining exploration expenses.

plans to implement the revised treatment of capital gains by 2004 and invites the Federal Government to follow suit. In Sweeting's view, lower capital gains taxes are key to ensuring the growth of the dynamic new economy.

Munir Sheikh, the Assistant Deputy

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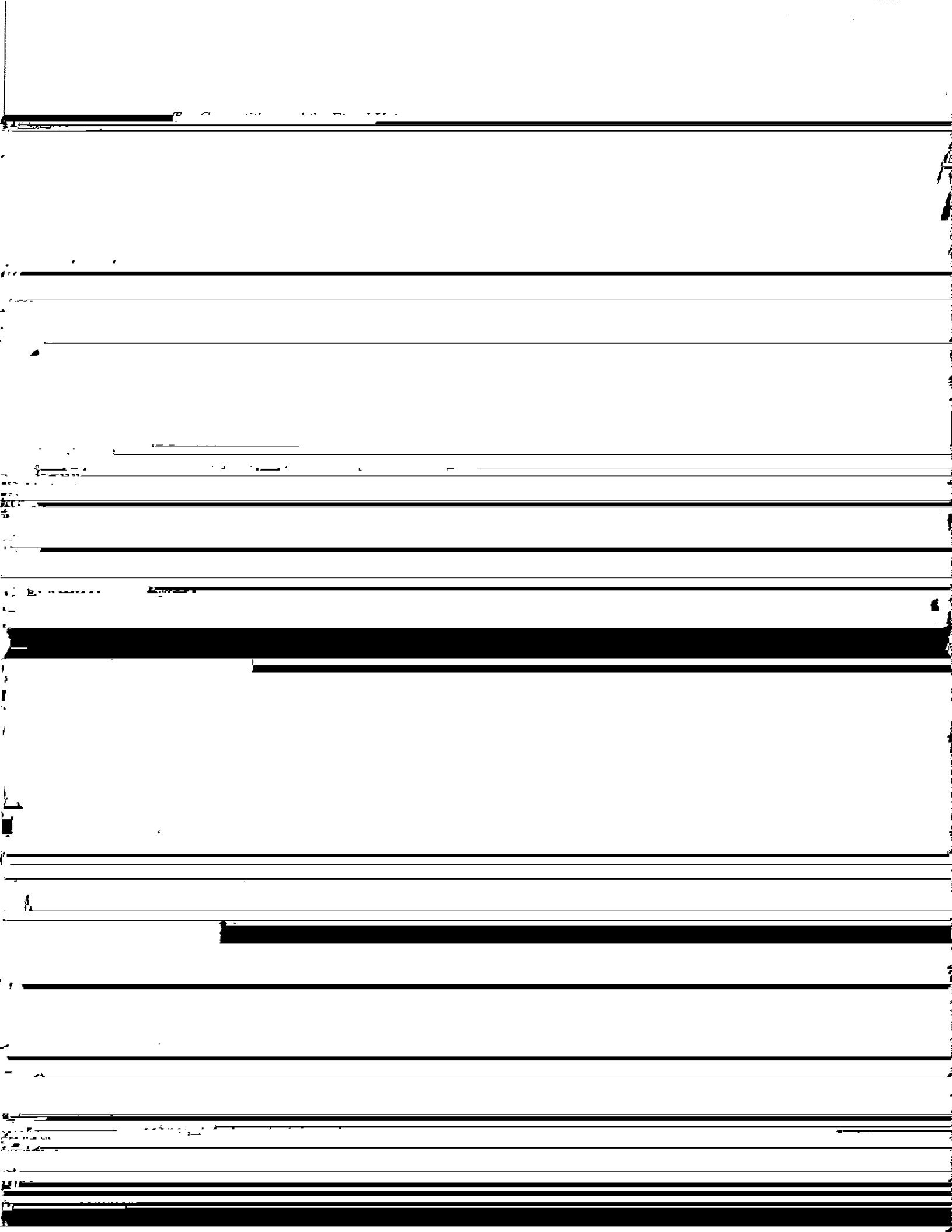
Alberta when they retire, but "Bay Street farmers" as well. He raised the question of the

fiscal front, there is the billion dollar error in the forecast of FDT payments to Ontario in the early

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big mistake that could end up facilitating the
harmonization of income tax systems. But others

has had in the past with Revenue Canada. This



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achieve equity objective because of the increasing mobility of factors. Sheikh cited the recent federal budget as an example of an effort

Conclusions

This conference could not have been more