EXECUTIVE SUMMARY

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Assessing British Columbia's Tax Competitiveness

by Taylor Jackson and Ben Eisen

British Columbia faces significant tax competitiveness issues, particularly with respect to the tax treatment of businesses in the province. The province's sales tax system—unlike that of many of its competitors—taxes a wide range of business inputs. Despite a corporate income tax rate that puts BC in the middle of the pack among Canadian provinces, this feature of the province's sales tax pushes BC's marginal effective tax rate (METR) on investment higher and creates competitiveness challenges, both of which discourage investment.

British Columbia has long had tax competitiveness challenges, but these have been exacerbated significantly in recent years with the provincial government's implementation of a wide range of tax increases. Specifically, the province has increased its corporate income tax rate, raised the top personal income tax rate, introduced a new payroll tax, and has continued to increase its carbon tax rate, which is currently the highest in North America. These more recent tax measures will all add to the costs of investing in the province.

As BC's tax system becomes less competitive, the province faces increasing competitive pressures from other jurisdictions. Of particular significance are the sweeping tax changes that the United States enacted in 2018 that have greatly reduced taxes on investment across the country. In the absence of reform, BC's waning tax competitiveness risks pushing investment that is critical for the province's economic and productivity growth to other jurisdictions. Prior to the tax reforms in the US, British Columbia's METR, though the highest in Canada, was lower than the American average. That situation is now reversed, and BC is at a disadvantage relative to the American average METR.

This paper analyzes British Columbia's tax competitiveness problems and assesses the extent to which recent tax policy changes have made matters worse. We identify a number of ways in which BC's tax regime and recent changes to it discourage investment.

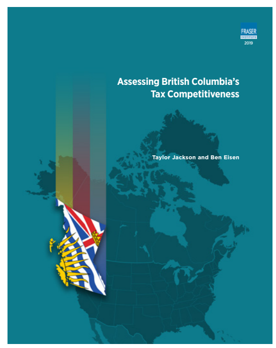
On personal income taxes, we show that British Columbia now has the ninth highest combined federal and provincial personal income tax (PIT) rate out of the 61 American states (including Washington, DC) and Canadian provinces. Further, we show that BC's top tax rate threshold is substantially lower than is the case in many American jurisdictions with whom we compete.

On business taxes, recent increases have increased the statutory corporate income tax (CIT) rate from 10 to 12 percent. This increase has exacerbated the business investment competitiveness problems created in the province by the existence of a sales tax on business inputs. Notably, the recent increases in the CIT have wiped out a reduction made in 2008 that was designed to partly offset the effects on business competitiveness of the implementation of a carbon tax. As a result, firms in British Columbia now not only face the highest carbon tax in North America, but they no longer enjoy any of the offsetting benefits that briefly existed as a result of lower CIT rates.

On the carbon tax itself, as noted, BC's is the highest in North America. Furthermore, whereas key competitors, including Alberta, have measures known as Output-Based-Allocations (OBAs) that help offset negative competitiveness effects for large emitters, BC's policy has no such measures, putting firms in the province under additional competitive pressure.

In addition, BC has implemented a number of additional tax increases in recent years, including the creation of a new payroll tax to fund health services and an increase to the property transfer tax.

This paper documents the extent of BC's tax competitiveness problem, shows how recent changes have made matters worse, examines several related economic statistics, and briefly discusses the implications of BC's competitiveness challenges for the province's long-term economic prospects.



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by Steve Lafleur, Ben Eisen, and Milagros Palacios

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Marginal Effective Tax Rates on New Investment by Province, 2017