

CONSTRUCTION MONITOR

The BC CONSTRUCTION MONITOR is an ICBA publication providing ahead-of-the-curve information and statistics on the BC construction industry and issues relevant to it.

The Monitor draws on analyses and outlooks from various sources, and provides current and substantive insight. This regular publication is intended for industry executives, government decision makers, journalists and other opinion leaders.

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You can receive the Monitor in print or digital formats, and let us know if you have colleagues who would also be interested in it. We also welcome your feedback and story suggestions. Please email us at info@icba.ca.

Higher Taxes: No One Wins



Philip Hochstein

The nightly news is packed with stories of people demanding the government fund new services – usually with the proviso that we tax corporations and the rich to pay for them.

If only it worked that way – but it doesn't.

This edition of ICBA's Construction Monitor lays out the risks of ratcheting up spending and taxes. The reality is everyone ends up paying for higher taxes – through higher prices, reduced employment and paycheques, and slower economic growth.

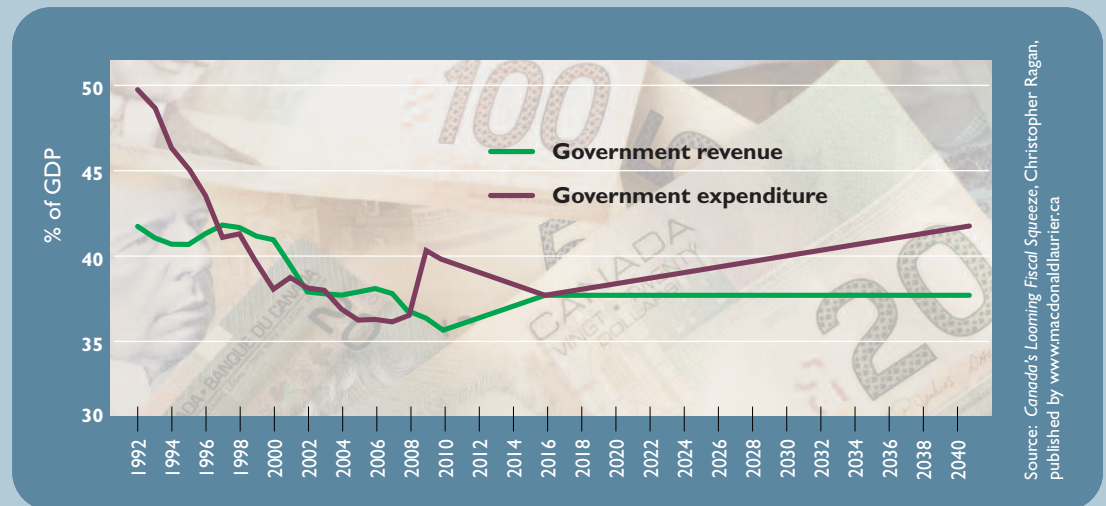
A recent income tax hike in Ontario, for example, is projected to eventually trim annual

net provincial revenues by about \$200 million. That's right – higher taxes means LESS money for government and services.

And there are challenges on the horizon threatening even the status quo – let alone increased spending. Net federal and provincial debt is already well above \$1 trillion. Health care and other spending pressures are huge and demographics are set to make them even more intense. This too has to be taken into account when deciding how much government can reasonably be expected to do.

If we want better standards of living and dependable, affordable government we need to be cautious about what we ask government to do. Low taxes are vital to our prosperity and paycheques whether we're rich or not.

Canada's Coming Fiscal Squeeze



Source: Canada's Looming Fiscal Squeeze, Christopher Ragan, published by www.macdonaldlaurier.ca

It's only going to get harder for governments to juggle priorities and balance budgets. In the coming years we'll have proportionately fewer working age people and be spending more on health care and income support. Without fundamental changes in how public funds are managed, this will push Canadian governments' expenditures well above their revenues.

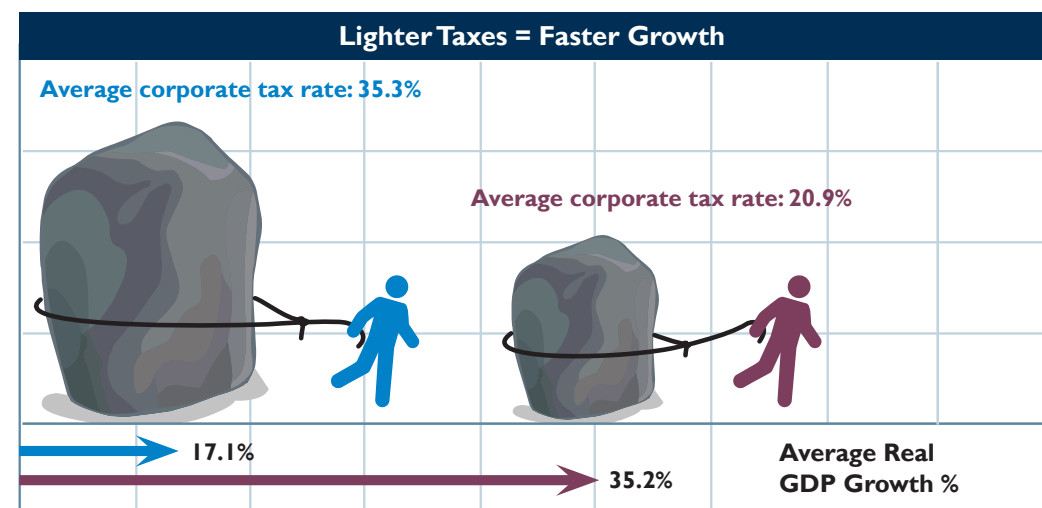
LOWER TAXES EQUAL...

...Stronger economic growth, and all of the many important ways in which that makes our day-to-day lives better. And contrary to a common misperception, lower taxes do not necessarily mean less revenue for government.

...More Economic Growth

Corporations are a tempting tax target, but taxing them heavily slows down economic growth. In 2000-2010 Canada was one of the 10 highest-tax countries among a large sample of major free-market economies – and these 10 had dramatically slower growth than the 10 lowest-tax countries.

10 Highest Tax Countries 10 Lowest Tax Countries Source: OECD Figures



...More of What Matters to You

Fortunately, there's been some progress since 2000-2010. Canada's federal corporate tax rate dropped from 18% in 2010 to 15% in 2012. The Canadian Manufacturers and Exporters calculates the following resulting benefits in jobs and paycheques, and in government revenues and the services they support.



A Stronger Economy

\$6.2 Billion
Business Investment*
\$25.8 Billion
Economic Activity (GDP)



More Jobs

49,900
Net Jobs



Bigger Paycheques

\$15.2 Billion
Personal Income



More Public Services

\$1.3 - \$3.7 Billion
Net Government Revenues

* Business, new facility, and machinery and equipment investments

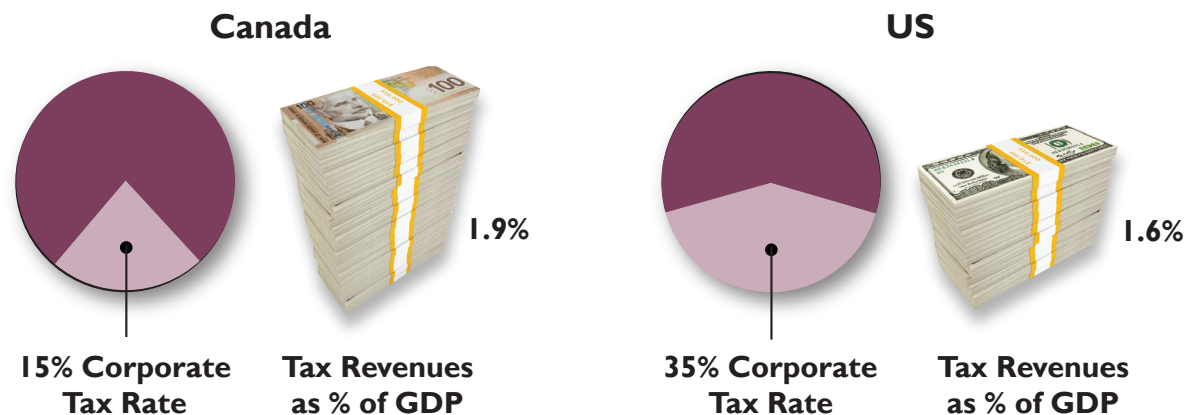
"Economists know well that higher corporate taxes are an almost certain route toward reduced economic growth and that the burden of such taxes ultimately falls on workers."

– Macdonald-Laurier Institute

...More Government Revenue

It's estimated this year that the relatively modest 15% corporate tax bite here in Canada will generate tax revenues for government of just shy of 2% of total GDP. South of us the United States has higher tax rates – and generates much lower revenues. With taxes, less truly can be more.

Source: Cato Institute; 2012 Projections

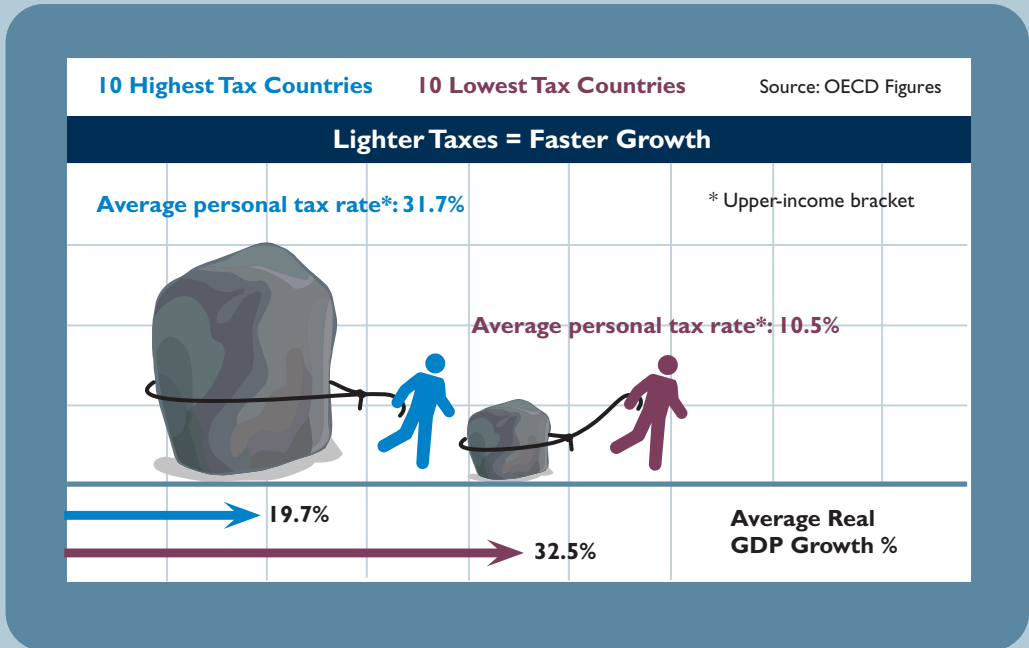


"Getting tax settings right is about people, fairness, and of course the lift in incomes and living standards that can come through economic growth, investment, jobs, and higher take-home pay."

– New Zealand's former Secretary to the Treasury John Whitehead

Personal Taxes Kill Growth Too

So if high corporate taxes aren't the answer, why not "tax the rich"? Because personal tax rates impact economic growth the same way corporate tax rates do. The 10 highest-tax countries in a large sample of major free-market economies had dramatically slower growth than the 10 lowest-tax countries in 2000-2010. Canada was mid-pack in the sample as measured by its tax rate, but had relatively weak GDP growth.



The Vicious Cycle of Taxation

There's no taxing our way to prosperity. Higher taxes have consequences. And as the data outlined above and inside show, they have the potential to create a vicious and distinctly downward spiral.

“Every time a taxpayer makes a decision based on tax considerations rather than economic merit, we all lose.”

The Tax Foundation
(Washington)



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