

August 13, 2008

The Honourable Colin Hansen  
Minister of Finance  
P.O. Box 9048, Stn Prov Govt  
Room 153, Parliament Buildings  
Victoria, BC V8W 9E2

Dear Minister:

**Re: 2009-2010 Pre-Budget Submission**

On behalf of 5,800 members of The Vancouver Board of Trade (The Board), we are pleased to present recommendations for the 2009-2010 provincial budget.

The Board has been generally pleased with the government's fiscal performance since entering office in 2001, and we have reflected this by assigning an overall rating of "A" to the government's budgets in each of the past six years. These grades reflect the government's performance in reducing taxpayer-supported debt through this period while at the same time, progressively reducing personal and corporate taxes and investing in much needed infrastructure.

The government's introduced a carbon tax beginning July, 2008, and is offsetting the tax by returning these revenues to business and individuals in the form of lower taxes. It is important, however, to continuously monitor this tax neutral plan to ensure it accomplishes its climate improvement objectives without creating unintended adverse consequences. Inequalities are inevitable—especially for business. The government must be prepared to move swiftly to deal with these inequalities and may have to find other means to provide businesses with a benefit to offset the carbon tax. The government must also measure the impact of these measures making sure the carbon emission reductions are achieved.

While we applaud the government's fiscal achievements to date, we continue to be concerned about the following matters within our areas of focus:

- Health care spending increases continue at unsustainable rates having averaged almost 6 per cent annually beginning in 2002, without any clear documented plan emerging to reform the health care system.
- B. is not competitive in certain areas of taxation such as income tax rates for higher income earners (versus Alberta), its property transfer tax regime and aviation fuel taxes.

- While the ratio of taxpayer-supported debt-to-GDP is projected to continue declining modestly, debt per capita is projected to rise over the next three years.

### **Economic Environment**

As detailed in Appendix A, growth in BC's real GDP started in 2002, and has grown faster than the Canadian average and all provinces except Alberta. Private sector investment has grown appreciably, many jobs have been added and the unemployment rate has dropped substantially.

### **Executive Summary of Recommendations for the 2009-2010 Budget**

Against the backdrop of somewhat slower projected growth and recognizing the meaningful tax measures announced in the 2008-2009 budget, The Board respectfully submits the following recommendations for consideration in the upcoming budget.

#### **Limit total spending increases to the combined rate of increase in population and inflation, or approximately 3.5 per cent and prudently implement cost savings**

Beginning in 2005/2006 total government spending has increased well beyond The Board's 3.5 per cent guideline – primarily due to significant increases in health care and education costs (Appendix B). In addition to health care reforms discussed later, The Board recommends the government undertake a thorough review of lower priority programs and General and Administration expenses with the objective of reducing costs by 3 per cent of total budgeted expenses or approximately \$1.0 billion. This would provide funding for initiatives such as those recommended below without jeopardizing the government's balanced budget mandate.

#### **Continue to collaborate with other provinces and the federal government to achieve meaningful reform of the health-care system**

We believe that the status quo is unacceptable and are disappointed that the government has not delivered a concrete plan to reform its health care activities. The Board's position is described in more detail in Appendix C.

#### **Raise the dollar threshold at which the 14.7 per cent personal income tax rate applies to \$150,000**

As shown in the table in Appendix D, high income earners in BC are at a 4.7 percentage point tax rate disadvantage compared to Alberta residents. In addition, our tax bracket threshold amounts are much lower than in the U.S. The highest tax rate in the U.S. applies on incomes over \$300,000 compared to \$97,636 in BC. The Board recommends that, effective for 2009, the dollar threshold at which the 14.7 per cent tax rate applies be increased to \$150,000. The estimated annual revenue impact is \$40 million.

#### **Reduce the 14.7 per cent tax rate for high income earners in BC**

The Board recommends that the top marginal personal income tax rate be reduced to 13.7 per cent in 2009, and that further tax rate reductions be

considered in subsequent years. The estimated annual impact of a one percentage point reduction in this tax rate on provincial tax revenues is \$145 million (Appendix D).

**Reduce BC's Aviation Fuel Taxes**

The level of taxes charged on aviation fuel in BC is significantly more than most jurisdictions with which we compete for aviation business, particularly when the scope of application is taken into account (Appendix E).

The Board recommends that the BC aviation fuel tax be reduced from 2 cents per litre to 1.5 cents per litre and that international passenger and cargo flights (including U.S. flights) be exempt from this tax. We estimate the total cost of these aviation fuel tax recommendations to be approximately a net of \$16 million per annum, and suggest they be implemented over two years.

**Restructure the Property Transfer Tax (PTT) regime making it more competitive with other provinces**

Except for first-time home buyers, BC's Property Transfer Tax (PTT) regime is the most onerous in Canada, which is exacerbated by our relatively high property prices tending to discourage real estate transactions. It also restricts non-arms length transfers (Appendix F).

The Board recommends the government increase the threshold value at which the 2 per cent transfer tax rate applies from \$200,000 to \$400,000. The government revenue impact is estimated at \$165 million annually.

**Continue to apply unanticipated year-end surpluses to reduce debt**

In the past, this practice has resulted in a downward trend in both debt per capita and the ratio of taxpayer-supported debt-to-GDP which have become hallmarks of this government's debt management success.

In summary, the state of provincial finances has improved substantially over the last several years and now provides the government with a broader range of fiscal options. We encourage the government to maintain an approach balanced between prudent debt management, controlled spending and a competitive tax environment. We believe our recommendations are consistent with that approach and are available to discuss them at any time.

Sincerely

Don Rix CM, OBC  
Chairman and Chief Elected Officer

/jf

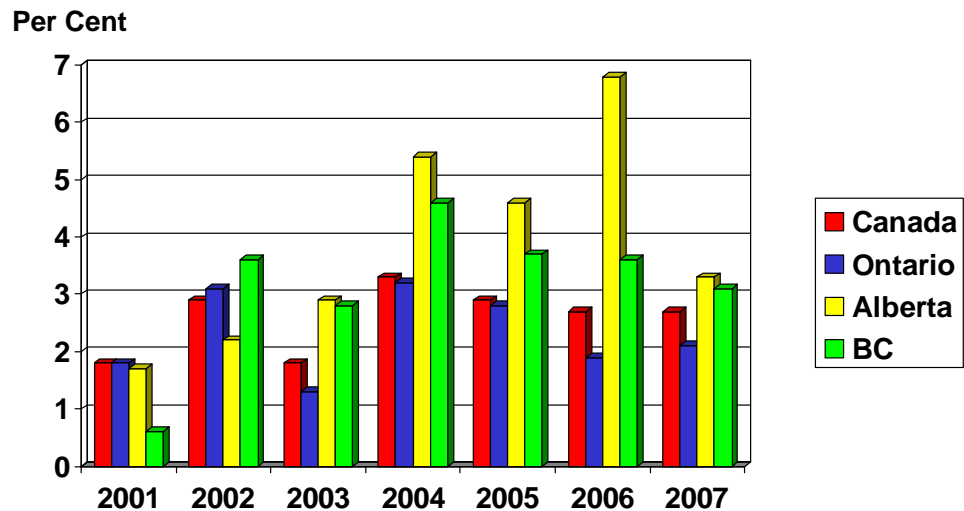
---

## APPENDIX "A"

### Economic Environment

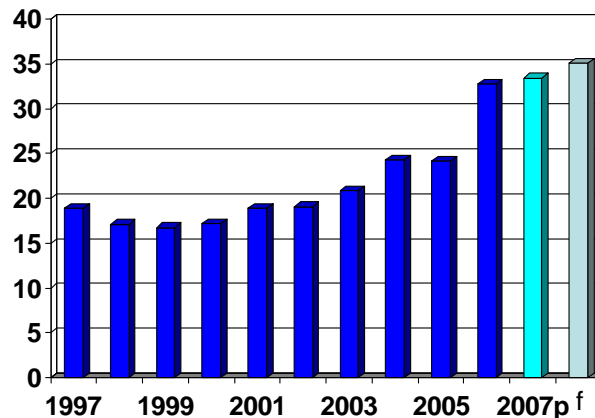
There has been a marked improvement in the British Columbia economy over the past several years. The province has experienced strong growth, as evidenced by our robust gains in real gross domestic product and growth in capital investment compared to all other provinces in Canada as shown in the graphs below.

### PER CENT INCREASE IN REAL GDP



Source: Statistics Canada

## Private Sector Investment in BC (\$Billions)



p = preliminary, f = forecast

Source: Statistics Canada Table 032-002

Real economic growth in BC in 2007 was 3.1 per cent. Between 2001 and 2007, British Columbia had the second highest rate of employment growth in Canada at 2.8 per cent, with 344,700 new jobs added. The seasonally adjusted unemployment rate in BC was 4.5 per cent in May 2008, compared with 9.7 per cent in December 2001.

Oil and gas exploration and development continues to be strong, there is significant mining investment, the construction industry is near full capacity, there is positive in-migration from other provinces, and retail sales continue strong. Consumer and business confidence is high.

BC's economic outlook for the next few years appears reasonably favourable, albeit with GDP growth expected to decline somewhat. However, there are risks to economic growth due to the volatility of commodity prices, the extreme tightness of the labour market, increased costs of construction and the impact on exports due to the continuing strength of the Canadian dollar.

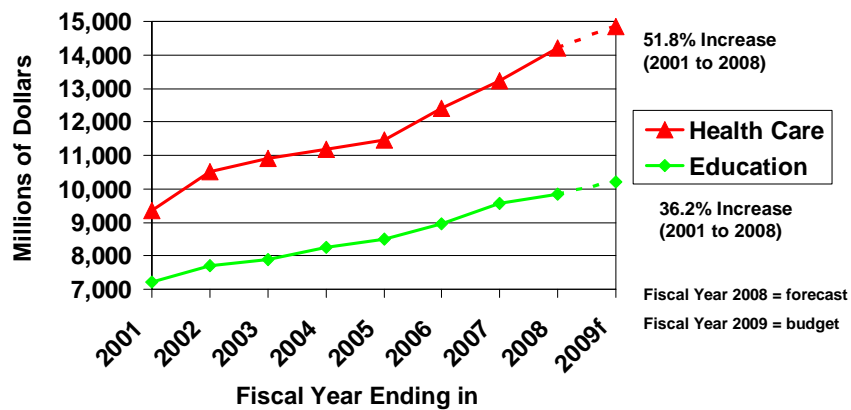
## APPENDIX "B"

**The Board continues to recommend total spending increases be limited to the combined rate of increase of population and inflation, or approximately 3.5 per cent and prudently implement cost savings.**

Beginning in 2005/2006, provincial spending growth has increased in excess of The Board's recommended 3.5 per cent annual limit, driven largely by health care and education spending due, in part, to wage settlements with unions. The following chart illustrates this trend.

2

### B.C. Government Spending On Health Care and Education Annually



Sources: *Budget and Fiscal Plans*, B.C. Ministry of Finance

There have been substantial increases in health-care funding in the past several years funded by both the provincial and federal governments. Those large increases, combined with future affordable increases, should provide adequate support for BC's health-care requirements in the short-term provided they are accompanied by effective policy and process reforms. The Board would like to see a more cost-effective health-care system and one that delivers services on a timelier basis.

## APPENDIX “C”

**The Board continues to urge the BC government to collaborate with other provinces and the federal government to achieve meaningful reform of the health-care system.**

The status quo is unacceptable and we are disappointed that the government has not delivered a concrete plan to reform its health care activities. The Board has repeatedly encouraged our governments to look to other countries for ideas on how to improve our system. Some European countries deliver publicly-funded health care with good outcomes at lower costs and without wait lists. Even though Canada is in the top tier of OECD countries in terms of the percentage of Gross Domestic Product spent on health care and health care expenditures per capita, the performance of the Canadian health-care system is less impressive. While there have been significant improvements in aspects of health care performance in British Columbia in recent years, a great deal more remains to be accomplished.<sup>1</sup> In particular, governments in Canada should be looking to improve the management and efficiency of the health-care system.

Our governments should consider opening the health-care system to more competition, particularly for our centrally planned hospitals. The Board believes that experimentation with fee-for-service within the context of a publicly-funded system, and alternative models of service delivery could result in performance improvements and yield cost savings. The private sector can and should be used to provide medically necessary surgical and diagnostic services as a complement to those provided through the public sector. Canada is the only developed country where the private sector is not involved in this way.

---

<sup>1</sup> An extensive analysis of this situation may be found in *Reforming the Canadian Health-care System*, a report by The Vancouver Board of Trade, May 2006.

## APPENDIX “D”

In the past two fiscal year budgets, the Government of British Columbia implemented meaningful reductions to personal income tax rates so that residents of the province earning less than \$97,636 annually will pay the lowest income taxes in Canada. However, British Columbians earning over that threshold continue to pay 14.7 per cent on the additional income compared to only 10 per cent in Alberta.

The heavy burden placed upon higher income earners impedes our ability to attract and retain highly skilled personnel, and to retain managers who control higher levels of investment capital. Decreasing taxes will encourage these British Columbians to work, save and invest, and will assist the economy to grow at a greater rate thus providing additional funding for social programs

In addition, our tax bracket threshold amounts are much lower than in the U.S. as illustrated by the fact that the highest tax rate in the U.S. applies on income over \$300,000 compared to \$97,636 in BC.

### TAX COMPETITIVENESS 2008 PERSONAL INCOME TAX RATES (PER CENT)

Tax Bracket	BC <sup>1</sup>	Alberta	Ontario
1 <sup>st</sup>	5.24	10.0	6.05
2 <sup>nd</sup>	7.98	10.0	9.15-11.0 <sup>2</sup>
3 <sup>rd</sup>	10.50	10.0	11.0-17.4 <sup>2</sup>
4 <sup>th</sup>	12.29	10.0	17.4
5 <sup>th</sup>	14.70	10.0	17.4

<sup>1</sup>Rate is after application of reductions due to carbon tax.

<sup>2</sup>The base rate depends on the applicable Ontario surtaxes.

### **The Board recommends that the 14.7 per cent tax rate for high income earners in BC be reduced**

The Board recommends that the top marginal personal income tax rate be reduced to 13.7 per cent in 2009, and that further tax rate reductions be considered in subsequent years. The estimated annual impact on provincial tax revenues is \$145 million.

**The Board recommends that the dollar threshold at which the 14.7 per cent personal income tax rate applies be increased to \$150,000**

The Board recommends that, effective 2009, the dollar threshold at which the 14.7 per cent personal income tax rate applies be increased from the current \$97,636 to \$150,000. The estimated annual revenue impact is \$40 million.

## APPENDIX “E”

### The Board supports reduction of B.C.’s aviation fuel taxes.

As shown in the following table, the level of taxes charged on aviation fuel in BC is significantly more than most jurisdictions with which we compete for aviation business, particularly when considering the scope of application.

The Board recommends that BC’s aviation fuel tax be reduced from 2 cents per litre to 1.5 cents per litre. And that international passenger and cargo flights (including U.S. flights) be exempt from this tax.

### CURRENT AVIATION FUEL TAXES

Jurisdiction	Rate (Can / Litre)	Comments
Canadian Federal Government	4 cents	International including U.S. exempt
U.S. Federal government	1.3 cents	International including Canada exempt
Province of British Columbia	2 cents	100% rebate on international cargo
Province of Alberta	1.5 cents	100% rebate on international and U.S. operations (both passengers and cargo)
State of Washington	3.2 cents	International and inter-state are exempt
State of California	0	
State of Alaska	1 cent	International including Canada are exempt

We estimate that the net total revenue impact of these aviation fuel tax recommendations would be approximately \$16 million per annum, and suggest that they be implemented over a two year period.

The provincial government would receive significant additional tax revenue from the recommended reduction in aviation fuel taxes as aviation industry sources indicate that it could result in more flights to and from British Columbia. We expect the net impact on provincial government revenue from the proposed reductions in aviation fuel tax would be fully offset by additional revenue generated as a result of these reductions.

## APPENDIX “F”

### **Restructure the Property Transfer Tax regime making it more competitive with other provinces**

As shown in the following table, except for first time home buyers, BC's Property Transfer Tax (PTT) regime is the most onerous in Canada and is exacerbated by our relatively high home prices. The government is forecasting to collect over \$1 billion through this tax in 2008/2009, four times higher than collected in 2001. In sharp contrast, Alberta and Saskatchewan do not levy such taxes.

<u>PROVINCE</u>	<u>TAX % PROPERTY VALUE</u>
British Columbia	1% on first \$200,000 2% thereafter
Manitoba	Exempt up to \$30,000 .5% on \$30,000 - \$90,000 1% on \$90,000 - \$150,000 1.5% on \$150,000 - \$200,000 2% over \$200,000
Ontario (1)	.5% up to \$55,000 1% on \$55,000-\$250,000 1.5% on \$250,000-\$400,000 2% thereafter that contain 1 or 2 single family residences

(1) The City of Toronto applies an additional PTT of 0.5 per cent up to \$55,000 and 1 per cent on transaction values between \$55,000 and \$400,000.

British Columbia's PTT is obviously non-competitive with other provinces applying such a tax. We are particularly at a disadvantage vis-à-vis Alberta which assesses only a nominal registration fee for property transfers.

The BC Real Estate Association (BCREA) estimated that, based on first quarter 2007 MLS home prices, BC purchasers paid PTT equal to 1.5 per cent of average fair market value compared to 1.1 per cent for Ontario and Quebec, the second highest provinces. In addition, they estimated that PTT dollar value levied for an average BC home represents almost 10 per cent of average household annual income; more than double any other province.

The existing PTT structure was introduced in 1987, when the median BC home price was approximately \$121,000. In effect, the 2 per cent rate applied only to luxury homes whose owners were more financially able to afford this higher rate. With the median home purchase value in 2007, being in the \$440,000 range, it is unreasonable to retain the 2 per cent rate threshold value at \$200,000.

The Board recommends the government increase from \$200,000 to \$400,000 of real estate purchase value the threshold at which the 2 per cent property transfer tax rate applies. It is estimated that this recommendation would impact government revenues by approximately \$165 million annually. This action would align our regime more closely with other provinces imposing such a tax and should increase home construction and jobs. Meaningful reduction in the PTT would encourage additional real estate transactions from potential buyers presently at the affordability margin. The BCREA, who support our recommendation, estimates that, on average, a single residential sale generates approximately \$40,000 in ancillary expenditures, and produces about one quarter of a job.

Not only is British Columbia's PTT structure substantially out of line with other provinces, it is being imposed on housing that is already comparatively less affordable. RBC Financial Group's fourth quarter, 2007 survey of housing affordability in BC illustrated that approximately 38 per cent to 75 per cent of the province's median pre-tax household income is required to cover home ownership costs, depending whether the home is a standard condo or a standard 2-storey house, respectively. BC has the highest affordability index of all provinces, by far. Raising the 2 per cent tax threshold to \$400,000 is more reflective of the median transaction price for homes of \$440,000.

The other issue to be considered is that of non-arms length transactions between businesses which presently attract PTT although such a transaction is virtually the same as that between a husband and wife. We suggest it would be prudent to rectify this oversight of this issue that affects non-arms length transfers of property for businesses.