

MB Check-Up 2005

INVEST Section

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Indicators

INVEST

Innovation is calculated as the annual ratio of newly registered patents per million population and indicates future productivity gains.

Effective provincial tax for unattached individuals at the \$80,000 tax bracket, this illustrates the provincial tax burden placed on high-income taxpayers.¹

Unit labour cost is the average labour cost per unit of real Gross Domestic Product created, which considers both labour productivity and labour income.

After-corporate income tax profits to private-sector GDP rate takes into account the influence of provincial taxation on the ability of firms to earn a competitive rate of return on a business investment.

Taxpayer-supported provincial debt to GDP rate reflects the province's tax burden. It excludes self-supported debt (i.e., debt owed by commercial crown corporations and agencies) and focuses on the debt taxpayers are paying down directly.

¹ Tax data is from the BC Budget Papers and is evaluated for a number of tax brackets. Effective provincial tax includes income tax, property tax, sales tax, fuel tax, and health care premiums/ payroll tax.

Invest

Overview

Manitoba did not fare well compared to the other jurisdictions as a place to invest, despite its having the third lowest taxpayer-supported debt to GDP ratio (18.9)¹¹ and the second smallest increase in unit labour cost (\$0.60) in 2004. The province also had the lowest patents per million population (29.1), the lowest after-tax profits to GDP (8.22%) and the highest provincial effective personal tax rate for unattached individuals earning \$80,000 (17.8 %).

From 2003 to 2004, Manitoba saw some progress as the taxpayer-supported debt to GDP decreased (-2.1%) as did the provincial effective tax rate for \$80,000 income (-1.5%). After-tax profits to GDP increased, although by only 0.8%. The province also had the second smallest increase of all jurisdictions after British Columbia in unit labour cost (0.8%). However, after several years of improvement in innovation, Manitoba experienced a slump in patents per million population, decreasing by 29.5% from 2003 to 2004.

Table 3.1: Summary of INVEST Key Indicators

	British Columbia	Alberta	Sask.	Manitoba	Ontario	Canada	
Patents per One Million Population	39.8	58.4	48.2	29.1	53.3	45.5	2004 Value
Provincial Effective Tax Rate at \$80K Bracket	10.2%	10.2%	13.5%	17.8%	13.9%	15.1%	
Unit Labour Cost (\$/unit of output)	\$0.60	\$0.61	\$0.53	\$0.60	\$0.60	\$0.59	
After-Tax Profits to GDP	8.26%	17.01%	16.97%	8.22%	10.04%	10.75%	
Taxpayer Supported Debt to GDP	18.2	0.0	20.8	18.9	24.5	22.1	
Patents per One Million Population	10.2%	15.4%	139.8%	-29.5%	14.6%	13.5%	2003-04 % Change
Provincial Effective Tax Rate at \$80K Bracket	-0.3%	-0.2%	0.2%	-1.5%	-0.1%	-0.2%	
Unit Labour Cost	0.4%	2.6%	3.3%	0.8%	1.2%	1.3%	
After-Tax Profits to GDP	1.6%	1.3%	2.4%	0.8%	0.8%	1.0%	
Taxpayer Supported Debt to GDP	-11.7%	-100.0%	-11.1%	-2.1%	-2.4%	-7.1%	

¹¹ excludes self-supported debt i.e. that owed by Commercial Crown corporations and agencies

FOCUS INDICATOR: After-tax profits to GDP

Manitoba enjoyed renewed growth in 2004, posting a respectable 17% increase in corporate profits.¹² Since 1999, Manitoba's after tax profits to GDP ratio has been climbing slowly but steadily.

Manitoba has among the highest corporate and personal taxation rates in the country. The provincial government has been working to reduce the corporate tax burden since 2001, lowering its general corporate tax rate from 17% in 2001 to 15.5% in 2004; and 14% by 2007.¹³ There has been a corresponding and significant decline in the tax on small business (from 9% in 1995 to 5% in 2004), with cuts to 4% in 2007.¹⁴ Together, these tax reductions will enhance Manitoba's rate of return with other jurisdictions, but the province is not cutting as quickly or as much as the other regions.

General and Small Business Corporate Tax Rates¹⁵

General Corporate						
	1995	2000	2001	2002	2003	2004
Canadian Average	15.4%	15.3%	14.9%	14.3%	13.7%	13.9%
British Columbia	16.5%	16.5%	16.5%	13.5%	13.5%	13.5%
Alberta	15.5%	15.5%	13.5%	13.0%	10.0%	11.5%
Ontario	15.5%	15.5%	14.0%	12.5%	12.5%	14.0%
Saskatchewan	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
Manitoba	17.0%	17.0%	17.0%	16.5%	16.0%	15.5%

Small Business Corporate						
	1995	2000	2001	2002	2003	2004
Canadian Average	7.3%	7.0%	5.9%	5.6%	5.3%	5.4%
British Columbia	10.0%	5.5%	4.5%	4.5%	4.5%	4.5%
Alberta	6.0%	6.0%	5.0%	4.5%	3.0%	4.0%
Ontario	9.5%	8.5%	6.5%	6.0%	5.5%	5.5%
Saskatchewan	8.0%	8.0%	6.0%	6.0%	6.0%	5.5%
Manitoba	9.0%	9.0%	6.0%	5.0%	5.0%	5.0%

Source: Canadian Taxpayers Federation

The provincial government is also implementing other measures to decrease the tax burden on corporations, such as increasing the R&D tax credit from 15 to 20% (effective 2005) and expanding the scope of the Manufacturing Investment tax credit.¹⁶ In the meantime, Manitoba must still contend with a high personal tax burden, which can discourage entrepreneurial investments and attracting high performers from lower taxation jurisdictions.

¹² Statistics Canada, CANSIM table 384-0001.

¹³ Scotiabank Group, Fiscal Pulse (March 8, 2005). *Manitoba's 2005-06 Budget...Progress on Priorities*.

¹⁴ Ibid.

¹⁵ Canadian Taxpayers Federation <http://www.taxpayer.com>; provincial government websites.

¹⁶ Scotiabank Group, Fiscal Pulse (March 8, 2005). *Manitoba's 2005-2006 Budget...Progress on Priorities*. This includes a comprehensive list of Manitoba's revenue measures.

Part of the reason Manitoba's after-tax profits/GDP ratio has been lower than most other jurisdictions is diminished corporate profitability in the face of an ongoing drought in previous years and depressed prices and demand in Manitoba's export markets. However, by the end of 2004, more rainfall improved the markets for crops and hydroelectricity and Manitoba's exports were once again buoyant. Corporate and capital taxation took a significant bite out of Manitoba's profits and continued to suppress the after-tax rate of return.

Ultimately, tax competitiveness affects productivity and standard of living and Manitoba's tax regime takes a substantial bite out of profits, reducing after-tax returns. Continuing to reduce its corporate tax rates will put Manitoba on improved footing with the other jurisdictions.

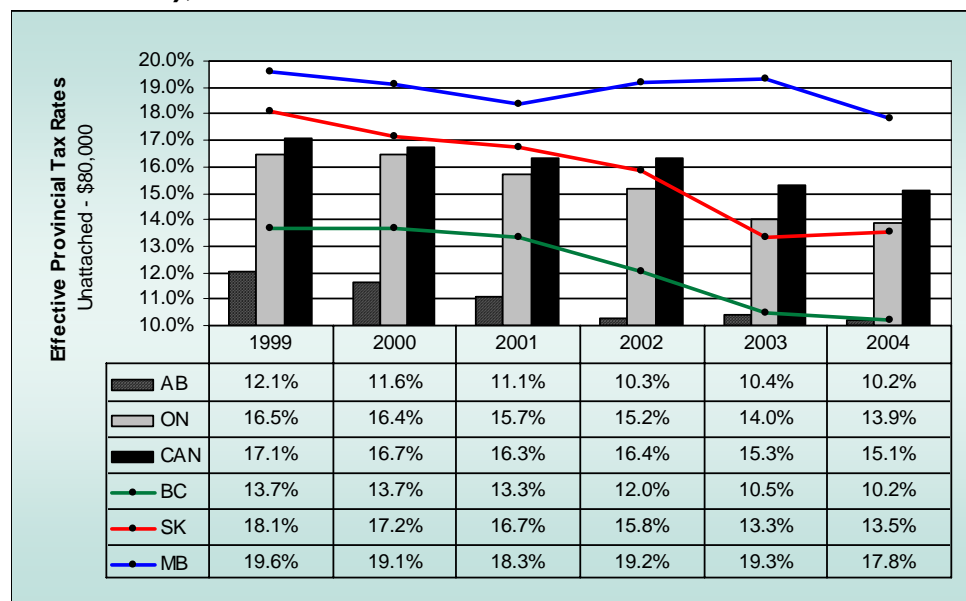
INDICATOR 2: Effective Provincial Tax

There has been a declining trend in the effective provincial tax rate for most income brackets in all jurisdictions. Manitoba's was the least dramatic while Saskatchewan set the fastest pace.

In 2004, for the higher income brackets, Manitoba imposed the highest personal provincial taxes. Manitoba's effective rate was 17.8% for high-income earners and has shown only small signs of decreasing during the past five years. At the other end of the income spectrum, however, Manitoba imposed among the lowest rates for unattached individuals in the \$25,000 bracket and for senior couples with a \$30,000 income.

The effective tax burden – particularly at the highest income levels – is a prime consideration when entrepreneurs or skilled workers are contemplating where to relocate or to start up a business. The lower the tax burden, the more likely a province can attract and keep productive workers and innovators. Manitoba is regarded as an affordable place to live but it needs to reduce the personal tax burden for investors and workers to free up more income for consumption and savings.

Figure 3-3: Effective Provincial Tax Rate* for \$80,000 Income (Unattached Individual), 1999 – 2004.



*Health Care Premiums are levied in BC and Alberta and approximately 50 percent of the Premiums are paid by employers on behalf of their employees with the remainder paid by individuals. Payroll Taxes are levied in Manitoba and Ontario and are paid by the employer. The cost to employers of Payroll Taxes and Health Care Premiums paid on behalf of employees is often reflected in reduced wages. This is why the cost of the Health Care Premiums and Payroll Taxes have been included in calculating the effective tax rate. The effective tax rate would be reduced by 2.1 percentage points in Manitoba when the payroll taxes are excluded.

INDICATOR 3: New Patents per Million population

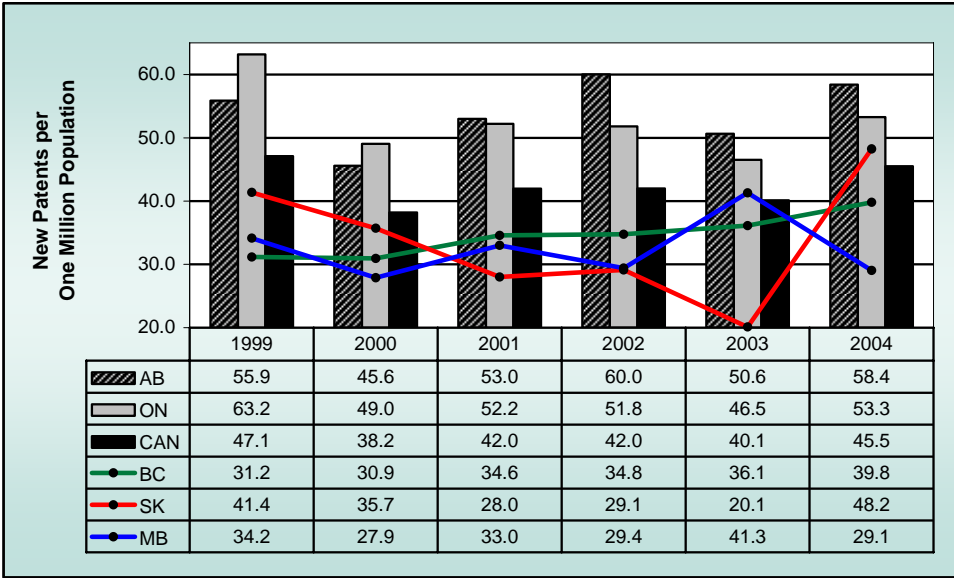
Innovation is a leading indicator of future productivity gains. Manitoba gave a surprisingly unimpressive performance in innovation in 2004, showing a 29.5% decrease from 2003 to only 29.1 patents per million population while the rate of innovation rose for all other jurisdictions.

Research and development (R&D) is essential to innovation and R&D spending is the most widely recognized determinant of innovation at the industry level of the economy. Between 1997 and 2001, R&D intensity – the ratio of real R&D spending to real GDP – increased slowly but steadily in Manitoba. After the technology stock crash in mid 2000 and sluggish economic performance Manitoba registered a 22.9% decline in business R&D in 2002. Nine of the ten provinces experienced decreases in R&D spending by business in the same year.¹⁷

Manitoba's downturn in 2004 was likely an outcome of the decline in business R&D in 2002 and poor economic performance up to 2003. However, Manitoba has built up the infrastructure and intellectual setting to support innovation and growth in the biotechnology field and possesses an excellent network of public and private research facilities in the agricultural, environmental and health sectors. With this critical mass of infrastructure and educational institutes, Manitoba's rate of innovation will likely turn up again and continue its long-term positive growth trend.

¹⁷ Statistics Canada, Science Statistics (August 2004) *Industrial Research and Development, 2000 to 2004*.

Figure 3-4: New Patents Per Million Population, 1999-2004



FAST FACTS from other indicators

Unit Labour Cost:

Manitoba saw one of the lowest year-to-year increases in unit labour cost between 2003 and 2004, rising by only 0.8% to \$0.60.

Taxpayer supported debt to GDP:

Manitoba taxpayer-supported debt to GDP ratio has declined steadily in the past five years reaching 18.9 percent¹⁸ in 2004 and has been below the national average since 1999.

¹⁸ Source of taxpayer-supported debt to GDP ratio is Statistics Canada. The 2004 value used here is slightly lower than the “government debt as a percent of GDP” ratio of 22.3 cited in the Saskatchewan budget tabled March 2005.