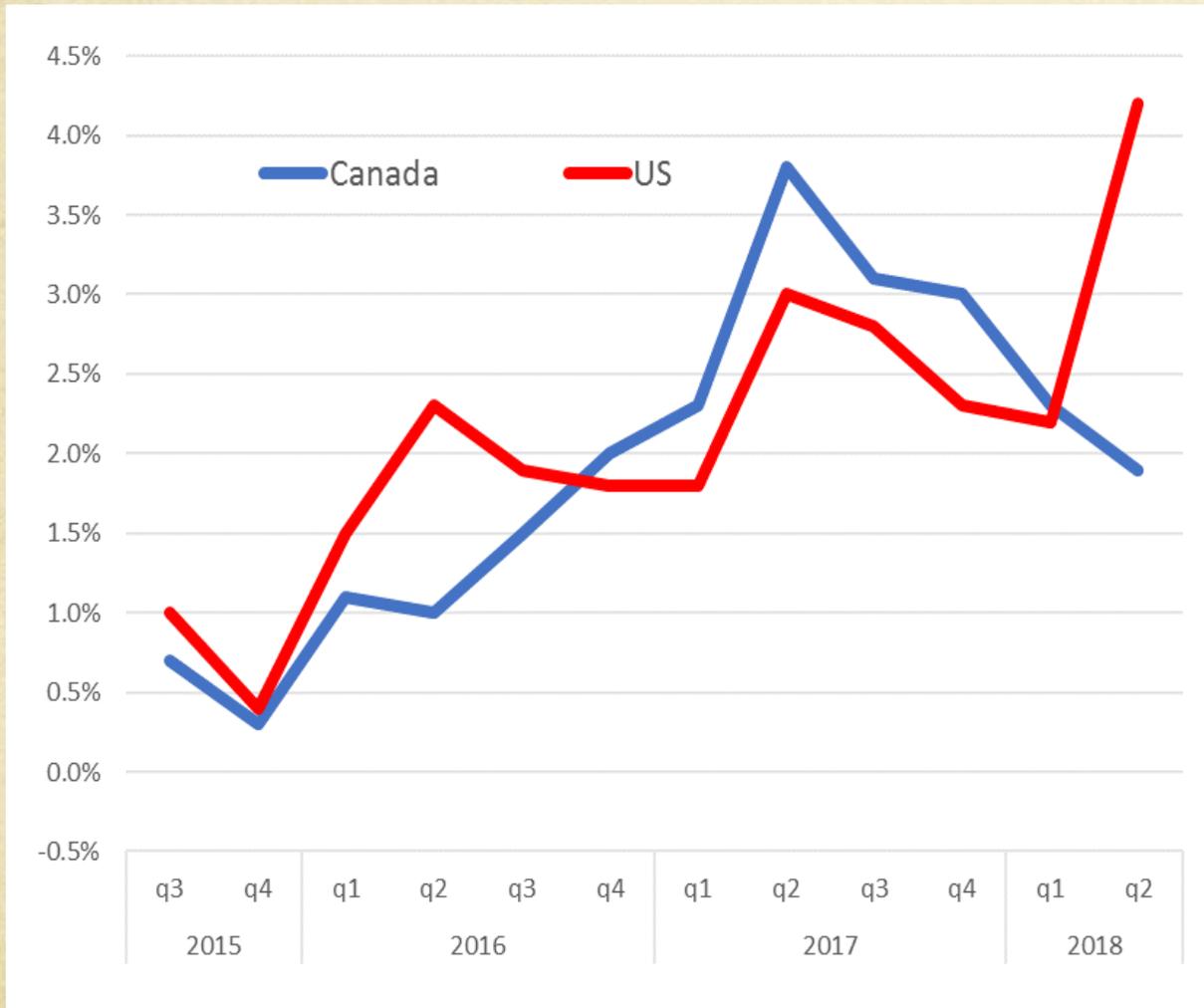


Growing Northern Ontario

Dr. Jack Mintz

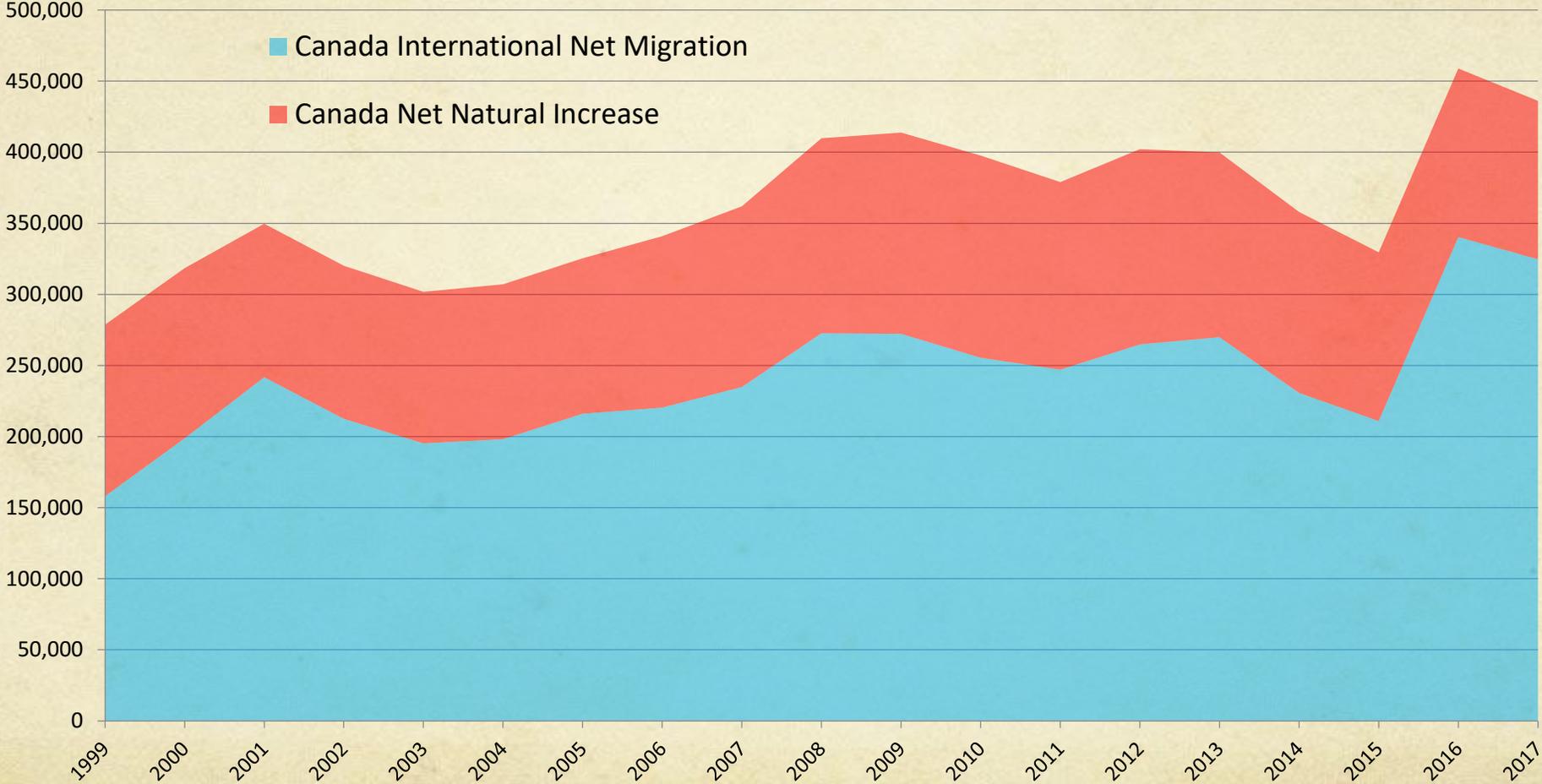
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Let's begin with growth and its relationship with tax



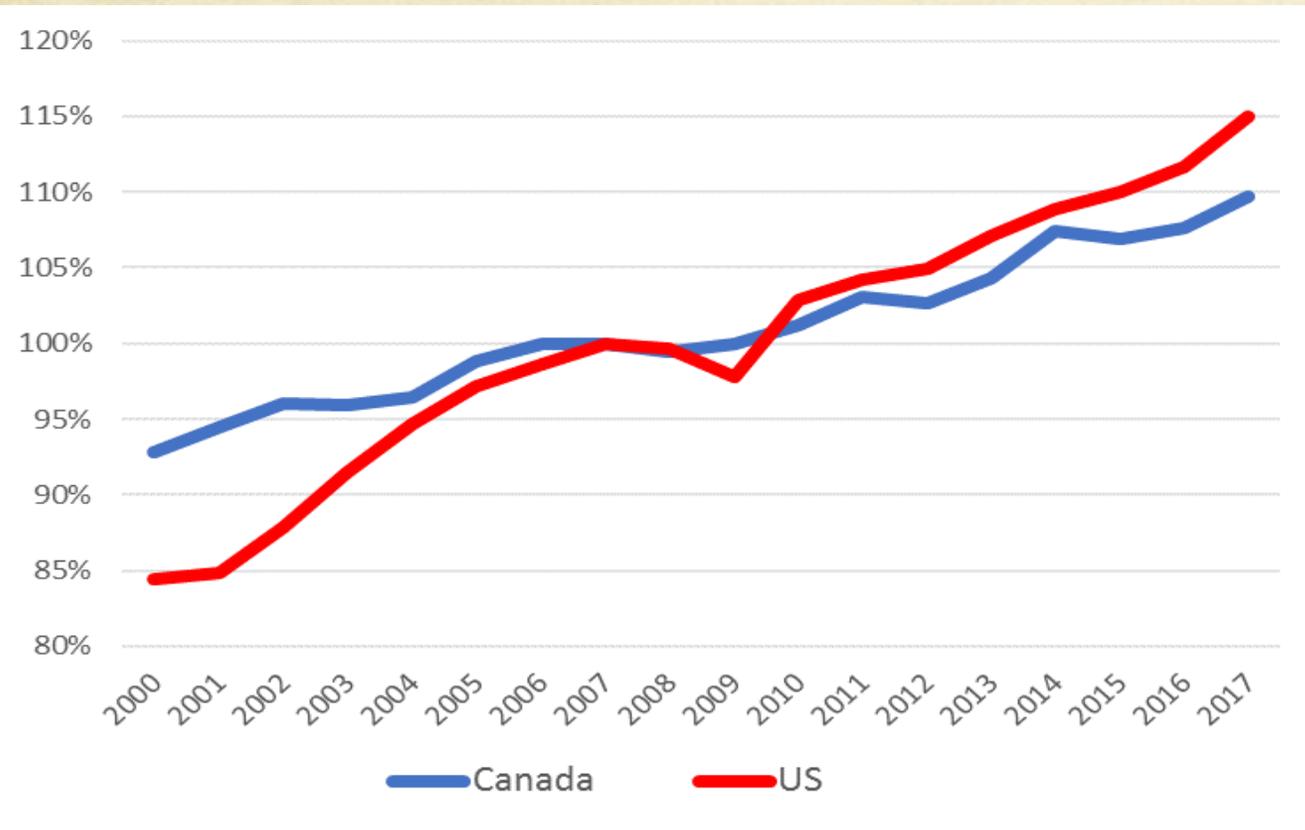
- While 2017 was a relatively good year of 3% growth, 2018 onwards returns to 2 percent.
- Long-run economic growth depends on two factors:
 - Labour (population) growth
 - Productivity (output per working hour)

Canada's population and labour growth is about 350,000 per year or roughly 1%. About 70 percent comes from migration.



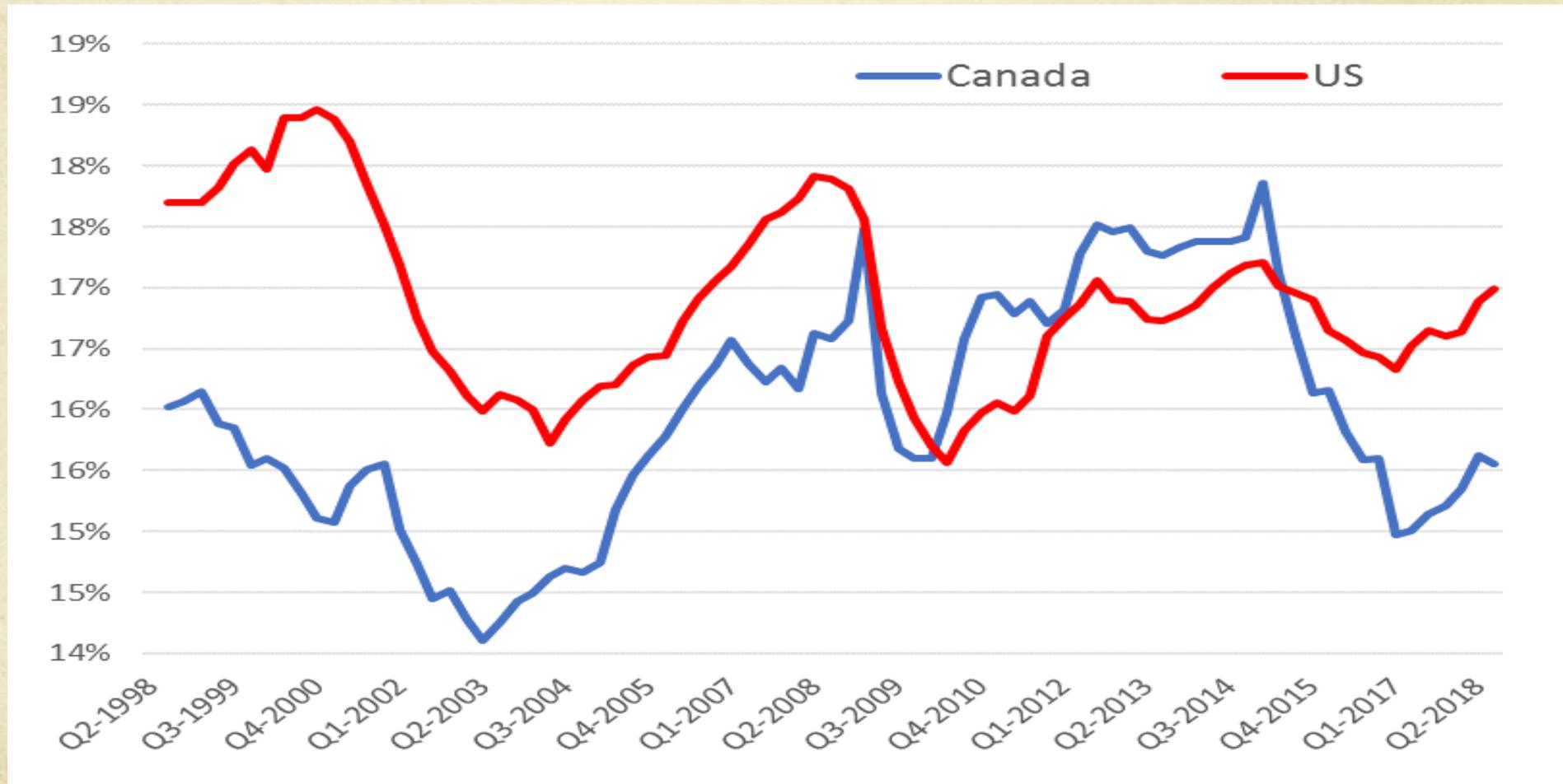
Source: U.S. Bureau of Labor Statistics & Statcan

Labour productivity growth in Canada has averaged about 1 percent annually

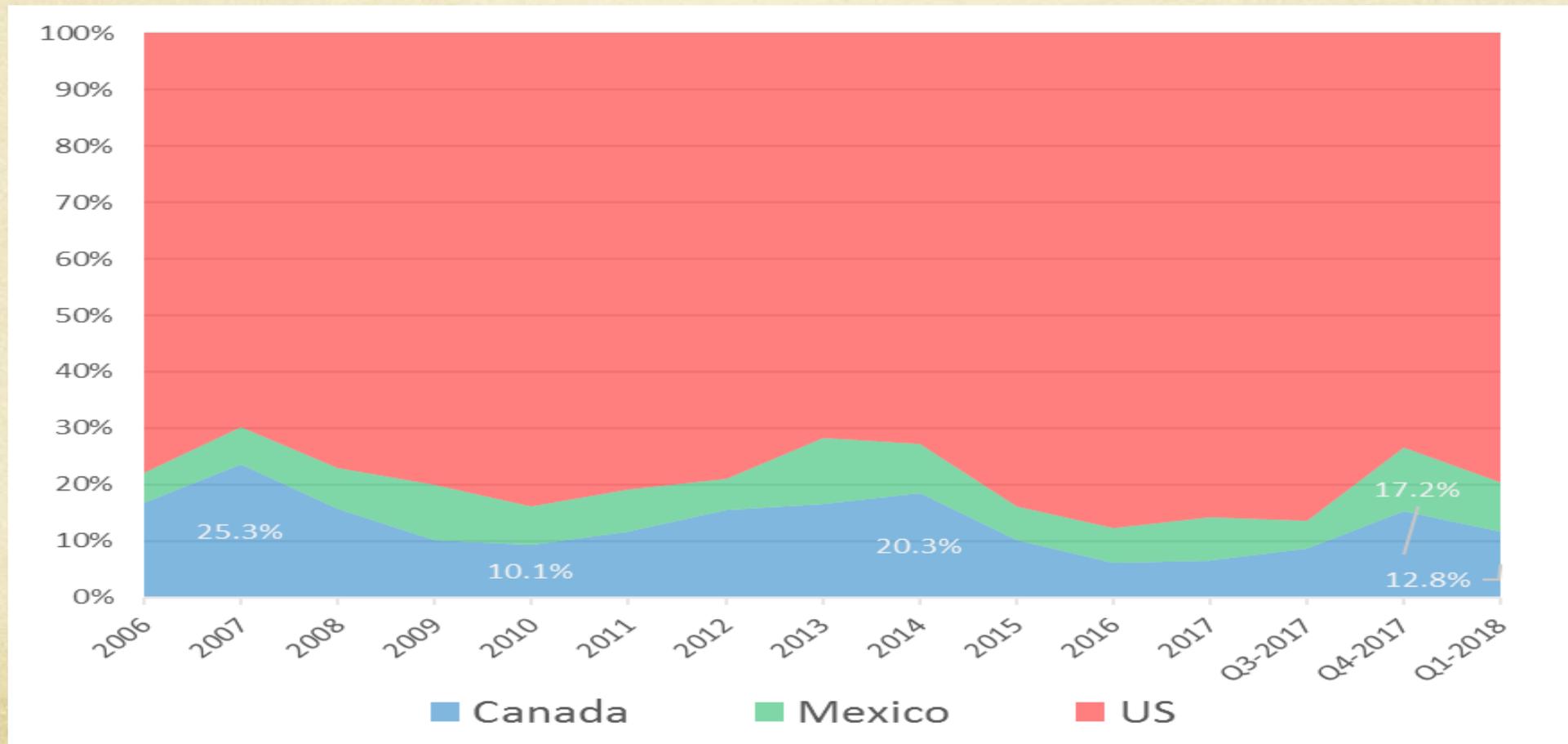


- Canadian productivity growth has declined after 2005 to less than 1%.
- Canadian productivity has been lower than the United States by almost a point before 2008 but similar after 2010-17.
- With 1% population growth and 1% productivity, cannot expect Canada to grow faster than 2%.

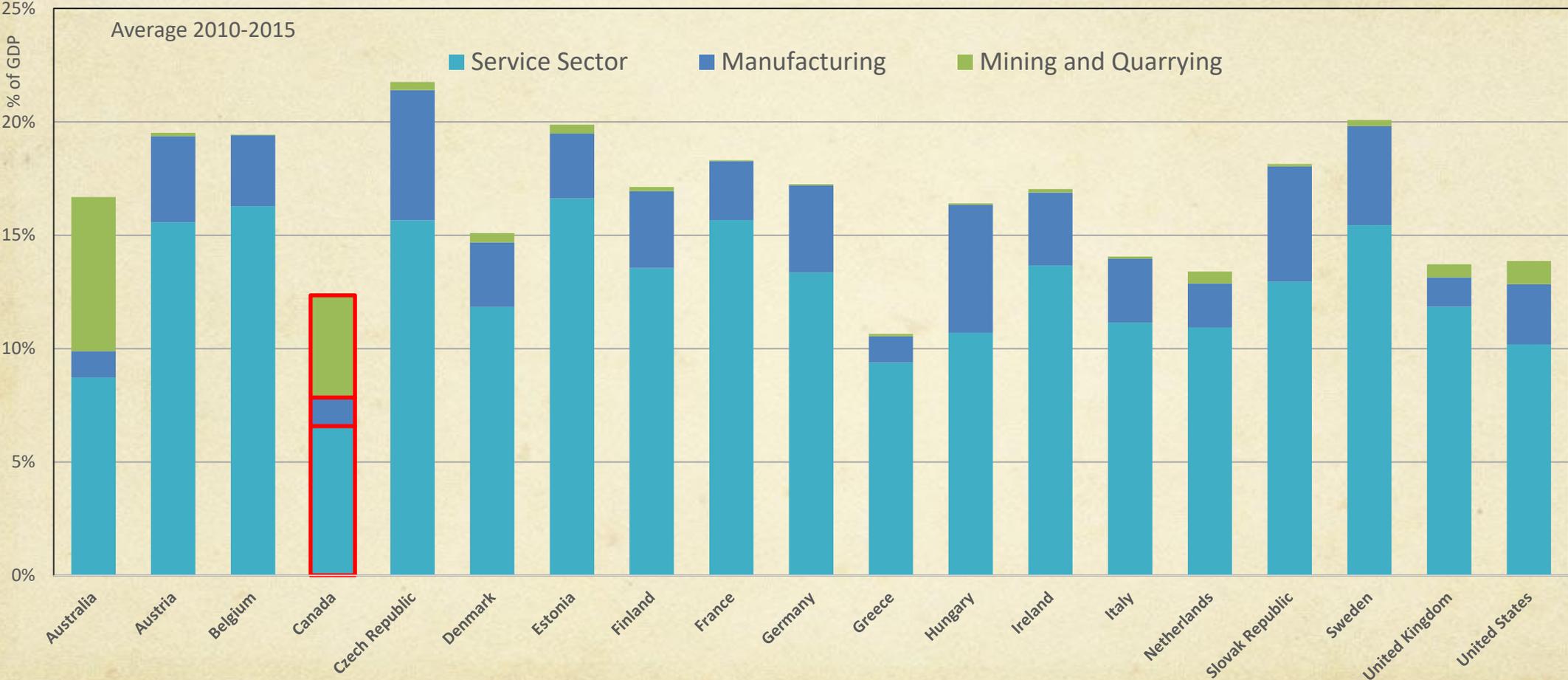
Gross fixed capital formation (excluding 'dwellings') as a share of GDP:
Canada is doing much worse than the US since 2015.



Canada's share of FDI Inflows In North America has been declining since 2007 when it peaked - now at 12.8%

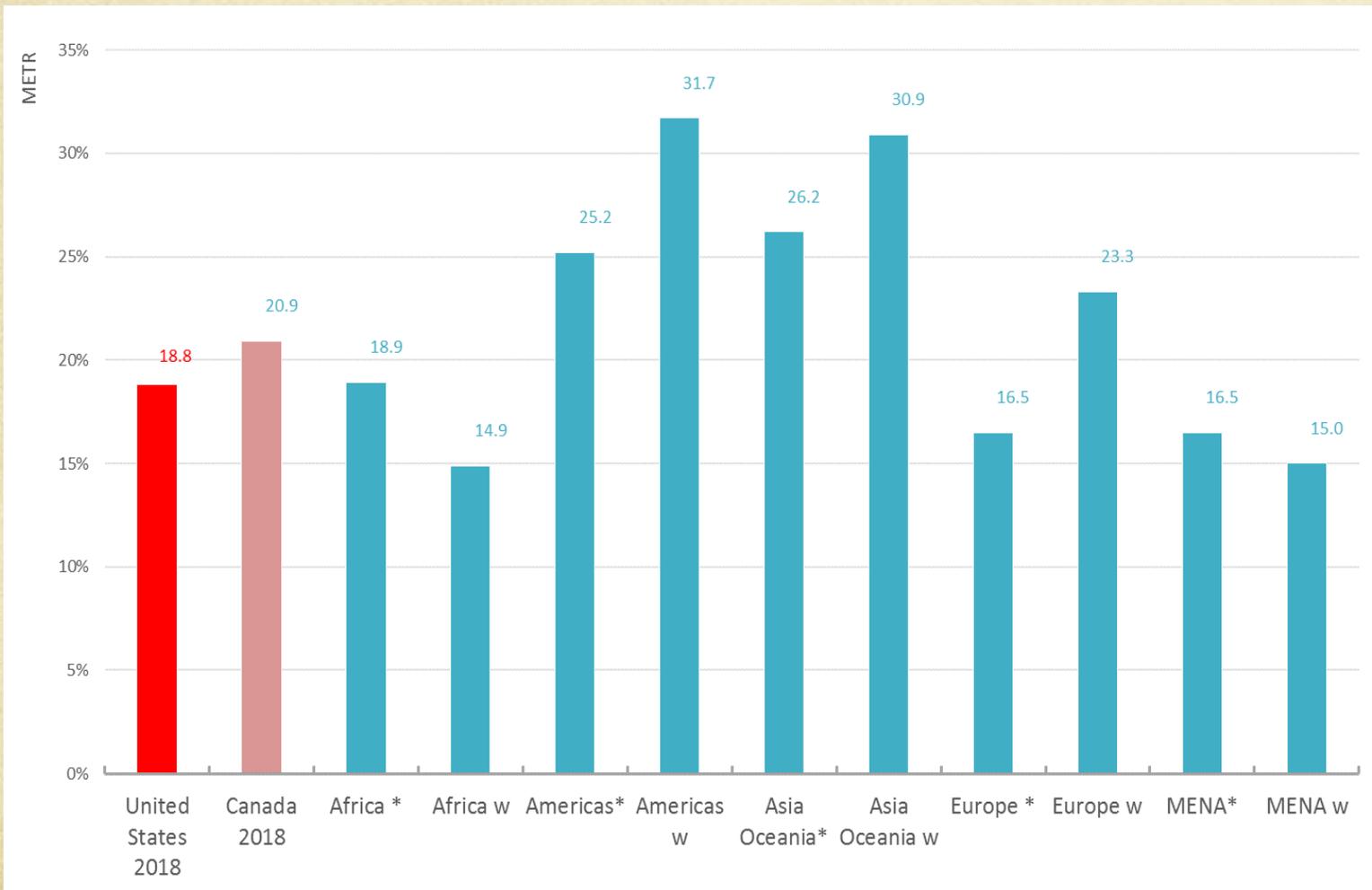


Compared to OECD countries, Canada is particularly deficient with private investments as a share of GDP.



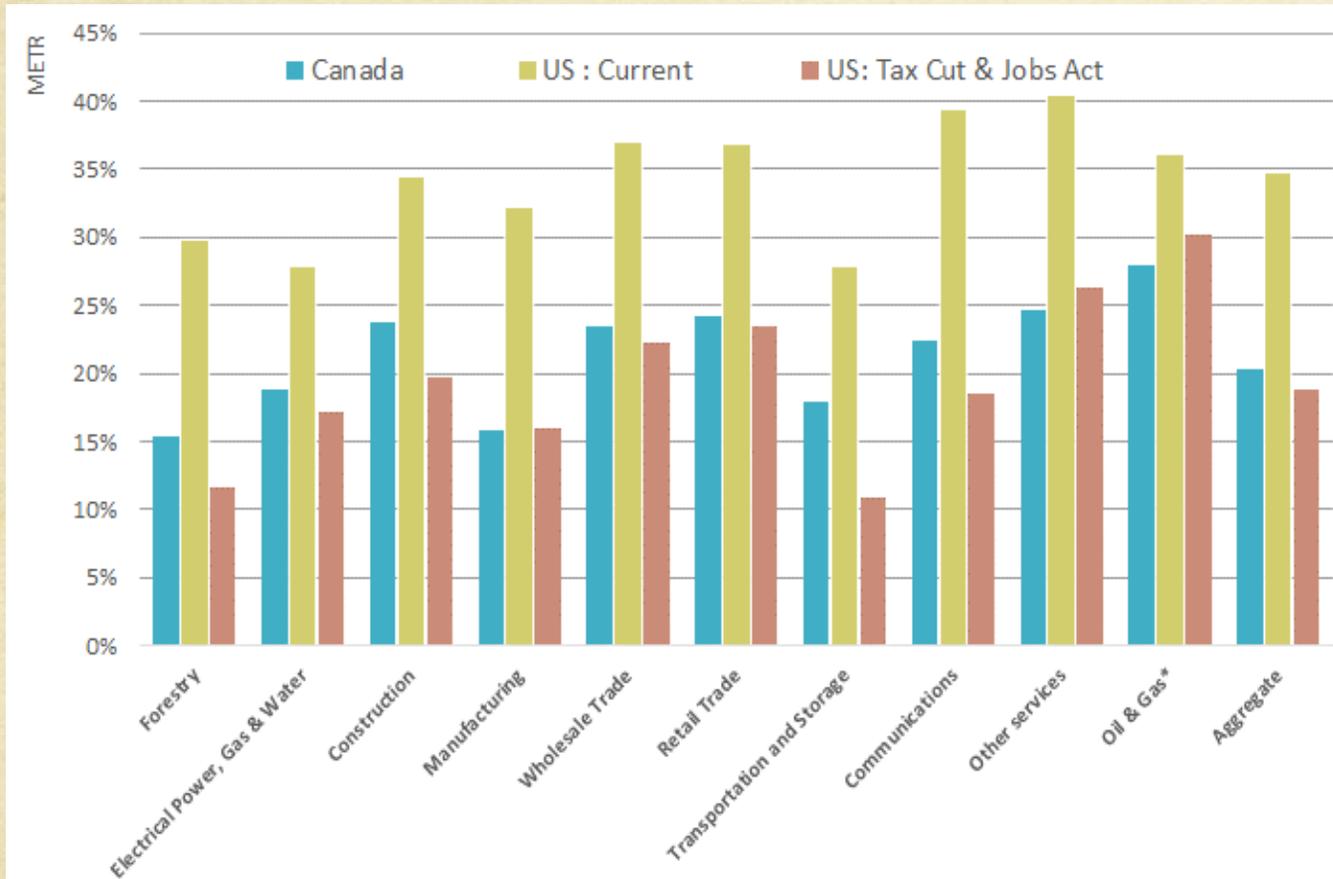
Source: Statcan OECD SNA tables & World bank FDI flows

Canada's tax on new investment for large companies compared to other regions of the world



- Canada's corporate tax burden on capital investment is 20.9% in 2018, not much different than 2010.
- It is higher than corporate tax burdens in Africa, Middle East, Europe (except Germany, Italy and France).
- It is lower than Asia and Americas.
- Does not account for US tax on intangible income at 13.125%.

While better growth in the US is good for Canada, we have lost our capital tax advantage, leaving other disadvantages more glaring (higher labour and energy taxes, cold weather and small market).



- Canada's tax on large company investment (20.9%) in 2018 is now higher than US (18.9%).
- We are particularly off-base in communications, transportation, construction and forestry.
- About one-half of the decline in US tax burden is due to lower corporate rate and other half to expensing qualifying assets.
- US reform also provides a much lower tax on "intangibles" – intellectual property, marketing and services – federal rate 13.125%.
- With restrictions on interest and losses, companies will also wish to have more income in the United States.

G7 Top Personal Income Tax Rates and Applicable Thresholds

| 2018 | Individual Rate (%) | Income Threshold (CAD equivalent) |
|----------------|---------------------|-----------------------------------|
| Canada | 53.53 | \$220,000 |
| France | 53.753 | \$763,854 |
| Germany | 47.475 | \$391,558 |
| Italy | 47.13 | \$114,578 |
| Japan | 55.95 | \$474,771 |
| United Kingdom | 45 | \$254,864 |
| United States | 44.21 | \$724,779 |

- Among G7 countries, Canada's top marginal personal income tax rate is a third highest, just a shade below France and Japan.
- Compared to United States, the Canadian rate is almost 10 points higher (this assumes non-deductible state income tax rates).
- US threshold at which top rate applies is much higher than Canada.

US Tax Reform puts Canada at a distinct disadvantage for small and medium sized business

| 2018 Small Business Effective Tax Rates on New Investment | |
|---|--------|
| \$10 Million Asset Size | |
| Canada | 42.4 % |
| US C-Corporation | 32.5% |
| \$20 Million Asset Size | |
| Canada | 48.1% |
| US S-Corporation | 37.8% |

- Canada private corporate tax changes reduced small business rate on active business income to 9%.
- US reform lowers top personal rate, removed full deduction of state and local income taxes and introduces a concessionary rate for active business income (except certain services).
- US tax on small and medium size business considerably lower now.

Northern Ontario Economy

| Sectors | Northern Ontario | Canada |
|--------------------------------------|------------------|--------|
| Resources | 7.1% | 10.4% |
| Manufacturing | 6.0% | 10.3% |
| Services | 54.9% | 61.3% |
| Public Administration | 8.0% | 6.2% |
| Health, Social Assistance, Education | 24.0% | 11.8% |

- Northern Ontario has a relatively smaller resource, manufacturing and services sector compared to Canada.
- It is more heavily dominated by the public sector than the rest of Canada (administration, education, health and social assistance).
- Private sector activity is lacking in Northern Ontario.

Spurring on growth

- Labour participation
 - Education
 - Incentives – participation and hours worked.
- Private investment
 - Entrepreneurship
 - Corporate investment
- Infrastructure
 - Communication network
 - Transportation network