

# Tax Incentive Zones: Do They Work?

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## **Executive Summary**

Premier Ernie Eves recently announced that Northwestern Ontario will become a Tax Incentive Zone (hereon in NWO TIZ). The NWO TIZ will provide approved businesses with full relief from Provincial Business Education Tax, Capital Tax, and Employer Health Tax, as well as municipal property taxes. To be eligible, a new or expanding business must invest a minimum of \$100,000, create at least five full-time jobs, and demonstrate that existing businesses will not be harmed. Businesses that relocate from elsewhere in Ontario are not eligible.

Tax based incentive programs began during the 1970s in England and have been used throughout the United States (41 states to date) and Canada, with the goal of stimulating economic growth. The fundamental question underlying the effectiveness of a tax incentive program is whether tax breaks alone will be able to attract new investments. Level of taxation is just one of many factors that firms consider strategically. Proximity to major markets, local labour supply and availability of resources are all key considerations affecting a businesses location decision.

Tax incentive programs are common in Canada, as many provinces offer tax incentives to attract businesses to their jurisdiction. The Newfoundland's Economic Diversification and Growth Enterprises Program has created 19 companies and 500 jobs, while the Prince Edward Island Tax Incentive for Aerospace helped influence six companies to relocate or expand, employing approximately 500 people and injecting \$150 million into the provincial economy. The Nova Scotia Tax Incentive program has had 197 companies participate in investing activities inside the province and the Manitoba tax breaks have helped created over 10,000 new manufacturing jobs. This report reviews and compares the tax incentives offer by other jurisdictions to those offered by the NWO TIZ.

Tax incentives zones have shown an ability to promote growth, but they can cause a great deal of inequity. Cities on the outskirts of the tax incentive zones may be at a disadvantaged when trying to attracting new businesses, resulting in decreasing property values. Furthermore, the TIZ creates two equality issues regarding the fair treatment of existing businesses: 1) new businesses will receive tax breaks, while the existing businesses that are long-time taxpayers and providers of local employment will not receive any form of relief and 2) existing businesses will be competing against new companies that have a competitive advantage provided by the government. Also, citizens living in tax incentive zone may want to see their tax dollars support social programs as opposed to profit-seeking businesses.

The NWO TIZs may not be efficient tool for economic development because of the financial strain that is placed on the municipalities. “Somehow we will have to still pay the bills” said Kenora Mayor Dave Canfield “for us to not collect those taxes means we’d have to pass all the costs on the municipal tax payers.” There are also overhead costs included with the Northwestern Ontario TIZ, including cost of zone administrators. Many people believe that the TIZ initiative is inefficient and will result in an increased tax burden on the residential tax payers, while further complicating the tax system. Furthermore, the tax breaks offered by the NWO TIZ appear to be excluding small businesses even though the minimum investment threshold is \$100,000.

The conclusion is that tax incentive zones have been an effective economic development tool in most jurisdictions, but they give rise to a host of equity and efficiency issues. The report shows that the tax breaks offered by the NWO TIZ may not be enough to support economic growth or to compete with the tax environment of other jurisdictions. The tax breaks offered by the NWO TIZ are not comparable to the breaks offered by many of the tax incentive programs in other jurisdictions and may not lead to a similar level of economic activity. Furthermore, tax incentive programs may lead to an inefficient use of tax dollars. The costs of tax incentive programs may be better utilized on other programs within the community. Due to the highly uncertain nature of tax based programs and the Thunder Bay economy, only time will tell if the Northwestern Ontario TIZ initiative will be successful.

## **A. Introduction and Background**

On May 9th, 2003, Premier Ernie Eves announced that Thunder Bay will be designated part of the Northern Ontario Tax Incentive Zone. Effective January 1, 2004, eligible businesses will receive full relief on specified provincial taxes and municipality property tax.

“Tax incentive zones will attract new and growing businesses to Ontario, creating a stronger economy in smaller, rural and northern communities,” claimed Premier Eves “They will give our young people the opportunity to live, work and raise a family in the communities where they grew up.”

Although Premier Eves strongly supports the initiative, TIZs are very complicated. Along with the potential for economic development, the NWO TIZ initiative may give rise to some negative externalities and inequities.

The purpose of this report is provide information that can be used to make a well-informed decision concerning the effectiveness, efficiency, and equity issues regarding the use of tax incentive zones as a tool for economic development. This report examines the equality, effectiveness, efficiency of the NWO TIZ by reviewing empirical evidence, analyzing the results of other tax incentive programs and applying economic theory and tax policy. The reports frame of reference regarding Thunder Bay’s current economic state can be found in Appendix One.

***“Planning for the future also means allowing smaller and more remote regions of the province to take advantage of the economic growth seen in larger urban centers. That is why your government will introduce legislation to create tax incentive zones”***

***– Speech from the Throne, A New Era for Ontario***

## **A.1 - History of Tax Incentive Zones**

The NWO TIZ initiative is not a new concept. A number of jurisdictions around the world have already established tax incentive programs. The notion of tax incentive zones began in the 1970s, when England began to devise a tax strategy with the intention of helping the private sector regenerate and re-develop old and abandoned industrial areas. The program was completed and implemented during the 1980s when the Government of England created 11 enterprise zones that offered tax-based incentives.

During the same time period (1980s), numerous U.S. states began to create and implement their own enterprise zones in an effort to restore economically depressed regions. In 1993, Empowerment Zones and Enterprise Communities (EZ/EC) were established to further facilitate economic development in specific areas. Today, there are 41 U.S. states that have enterprise zones offering various forms of tax incentives to business.

Several provincial jurisdictions in Canada have also created tax incentive programs in recent history. Newfoundland and Labrador has created the Economic Diversification and Growth Program (EDGE) and Nova Scotia offers a wide array of tax incentives to prospective businesses. In 2000, the Quebec government began to develop a comprehensive tax strategy whereby a major investment could receive a ten year holiday on certain taxes. Manitoba and Prince Edward Island also offer many tax incentives to support economic activity.

## **A.2 - Defining the Northwestern Ontario Tax Incentive Zone Initiative**

There has been much discussion regarding the NWO TIZ initiative in the recent months, yet there is also confusion and a lack of understanding. The benefits of the NWO TIZ initiative are in the form of tax relief. Once located in Thunder Bay (or any other TIZ<sup>1</sup>), eligible businesses will not be required to pay municipal property tax and will become exempt from three Provincial taxes. Municipalities will also be required to provide assistance on certain charges and fees. The NWO TIZ commences on January 4<sup>th</sup>, 2004 and will be effective for ten years.

### **Business Eligibility**

Tax relief will only be provided to new businesses or to incremental investments by existing businesses when they expand within the NWO TIZ. The business must also commit a minimum investment of \$100,000 and create at least five full-time jobs. Furthermore, the business must be incorporated and work out of property that is subject to commercial and/or industrial tax. The

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<sup>1</sup> All of the territories in the Districts of Muskoka, Parry Sound, Nipissing, Timiskaming, Cochrane, Manitoulin, Sudbury – including the City of Greater Sudbury, Algoma, Kenora, and Rainy River have also been designated Tax Incentive Zones.

most eligible new businesses are value-added businesses, although other types will be considered if they present a strong business case. The definition of a value-added is currently elusive, since the government has not released any specific details or criteria for a value-added business<sup>2</sup>.

Any business that relocates to the NWO TIZ from within Ontario is not eligible for the tax relief; while certain businesses relocating from outside Ontario are eligible (there are currently no details in this regard). Existing businesses within the NWO TIZ area will not be eligible for tax relief.

Another condition set forth by the Province is that eligible businesses must prove that receiving TIZ status will not disadvantage existing businesses. New businesses and the municipality must provide a business case that shows that existing businesses will not be harmed.

### **Provincial Taxes Relinquished**

The provincial taxes waived for new businesses under the NWO TIZ initiative include:

- 1. Provincial Business Education Tax:** The *Education Act* requires every municipality to levy and collect property taxes for school purposes at the tax rates prescribed by the Ministry of Finance. Business property owned that is liable to assessment and taxation under the *Assessment Act* is also taxable for school purposes<sup>3</sup>. The 2002 Education Tax rates were approximately 2.65 percent for commercial property and 3.43 percent for industrial property.
- 2. Capital Tax:** Generally, every corporation which is subjected to Ontario Corporation Income Tax is also subject to capital tax<sup>4</sup>. The Province of Ontario imposes a 0.3 percent provincial capital tax on a corporation's capital. Taxable capital generally comprises the debt and shareholders equity figures reported on the liability side of a corporation's balance sheet.
- 3. Employer Health Tax:** The Province of Ontario levies the Employer Health Tax (EHT) to help fund universal health care. EHT is levied upon a corporation's payroll expenditures. The tax rate varies depending on payroll expense and begins at 0.98 percent and increases to a maximum of 1.95 percent. The first \$400,000 of payroll is exempt from EHT.

The \$100,000 minimum investment gives the impression that the NWO TIZ initiative is small business inclusive but further analysis reveals that many of the provincial tax breaks are biased

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<sup>2</sup> The "Northern Ontario Tax Incentive Zone Will Create Jobs and Build Stronger Communities" article provides some examples of value-added businesses, including "manufacturing and processing plants, in the fields of silviculture, mining equipment, millworks, wood products such as furniture and pre-fab homes, and new waste management and environmental technologies".

<sup>3</sup> The definition of "business property" that is eligible for Education Tax is found in section 257.5 of the Ontario *Education Act*.

<sup>4</sup> It should be noted that small businesses are exempt from capital tax, if it satisfies a total assets and gross revenue test (either one cannot be larger than \$3,000,000) or has taxable paid-up capital below a certain level (\$5,000,000).

towards larger businesses. Capital tax relief only affects businesses that have paid up capital in excess of \$5,000,000 or gross assets valued at more than \$3,000,000. The provincial business education tax relief will allow small businesses with assessed property values of \$100,000 (the minimum investment threshold) to save approximately \$2,650 to \$3,430 per year. Small businesses may not receive any benefit from employer health tax relief because the first \$400,000 of payroll is exempt. Therefore, small businesses only receive the an insignificant incentive of provincial business education tax relief. This tax breaks may be too small to support the development of small businesses in Northwestern Ontario.

### **Municipal Contributions**

Provincial tax assistance will not be provided unless individual municipalities make a commitment as well. Municipalities will be required to provide full municipal property tax relief for all eligible businesses. In Thunder Bay, municipal property tax rates fluctuate. Currently, commercial tax rates range from 1.64 to 2.84 percent depending on whether the property is occupied or unoccupied, used for office space, located on a main street, or within a shopping centre. Industrial tax rates range from 2.31 to 3.82 percent<sup>5</sup>. As well as full property tax relief, municipalities must also provide “case-by-case assistance” on municipal charges and fees. The Province has yet to specify which fees and charges may be relinquished, or the circumstances that require relief.

### **A.3 - Objectives of the Tax Incentive Zone**

The Ontario government has set out four strategic objectives for the NWO TIZ initiative to help achieve long-term, sustainable economic growth in communities experiencing challenges. The four objectives of the NWO TIZ are as follows:

1. To increase economic growth, investment and job creation in communities experiencing challenges in attracting investment and jobs.
2. To provide a tool that supports the implementation of Smart Growth<sup>6</sup> strategies.
3. To encourage communities to work together to develop local economic development strategies that increase opportunities (in their communities).
4. To promote economic diversification by supporting local entrepreneurship and risk taking, and by promoting new ideas that foster innovation.

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<sup>5</sup> These rates were received from a Canadian Federation of Independent Business (CFIB) Research report — October 2000 and represent averages for each business property tax class in the city.

<sup>6</sup> The Smart Growth strategies are 1) growing towards a better future, 2) making better decisions about infrastructure, 3) improving competitiveness and increase opportunity, 4) promoting and enhancing the environment, 5) building livable communities, 6) creating transportation choices.

## **B. Analysis of the NWO TIZ Initiative and Consultations**

Over thirty consultations were held between Province of Ontario officials and stakeholders before the NWO TIZ initiative was introduced, with the purpose of generating ideas regarding the design and implementation of the TIZ initiative. Stakeholders included community and business leaders from across Ontario.

### **B.1 - Positive Effects of the NWO TIZ on Thunder Bay**

The Province of Ontario released a paper "*Better Ways to Support Our Communities: Consultation Paper on Jobs and Economic Tax Incentive Zones*" (2003) that revealed the advantages brought forth during the consultation process.

1. The NWO TIZ initiative will "***provide municipalities and business with a new tool*** that is comparable to tools available in other provinces and US states." The TIZ initiative will allow for competition against these provinces and US states on a level playing field.
2. The NWO TIZ initiative is an "***opportunity to build on existing advantages and assets in communities to accelerate their economic growth***".
3. The growth that should result from the NWO TIZ initiative has the potential to "***helping municipalities to maintain and grow the commercial and industrial property tax base.***"
4. The brain-drain in certain municipalities can be reduced by "***providing young people jobs closer to home.***"
5. Many community and business leaders energetically promote the NWO TIZ initiative by claiming that it "***will give real hope to areas in need of economic development and experiencing challenges attracting investment and jobs.***"

Since the Ontario Government supports the NWO TIZ initiative, media and news releases may be biased towards the promotion of only the advantages. On the surface there would appear to be many advantages to the NWO TIZ initiative, but further analysis will separate the real advantages of the NWO TIZ initiative from the political hype.

#### **B.1.1 - Provide Municipalities and Business with a New Tool**

Stakeholders were concerned about competing for business against other jurisdictions in Canada and the U.S. that benefit from tax incentive programs. NOACC President Tannis Drysdale, an advocate of the NWO TIZ initiative, believes that the NWO TIZ will make the North more competitive against its neighbours in the Manitoba and U. S. where these programs exist.

One of the most recent tax incentive programs is the Economic Diversification and Growth Enterprise Program (EDGE) that was put in place by Newfoundland and Labrador. The tax breaks offered by the EDGE program are much greater and more profound than the tax breaks of the NWO TIZ initiative. Since its inception, in 1994, the EDGE program has created 19 new companies (with more pending) and has produced approximately 500 jobs.

Northwestern Ontario is competing with these provinces (and states) to attract new businesses, thus the NWO TIZ initiative may be advantageous because it will give the region another means for attracting investment. Although it is a new tool, the NWO TIZ's tax breaks are too small to be comparable to many of the tax breaks offered elsewhere in Canada.

Northwestern Ontario may also have a competitive advantage over the jurisdictions that do not have the benefits of a tax incentive program<sup>7</sup>. The NWO TIZ initiative will also be advantageous by offsetting some of the extra costs of doing business in the region.

### **B.1.2 - Opportunity to Build on Existing Advantages**

Many stakeholders believe that the NWO TIZ initiative will allow Thunder Bay to build on “existing advantages and assets” and to “accelerate economic growth”. These may be more hopes and aspirations than facts for two reasons. First and foremost, the very definition of “advantages” and “assets” is neither defined nor bound, thus making it a broad statement that can be applied to any proposal put forth by the Province. There can be no concrete evidence to support the validity of this advantage.

Secondly, this argument implicitly claims that the only reason why our existing advantages or assets are not being utilized is because of taxes. Much of the reasons why Thunder Bay's assets and advantages are no longer being built upon are because of city infrastructure, town council decisions, and Thunder Bay's proximity from other markets. Moreover, tax cuts have been in place for many years in Ontario. Since 1995, the government has cut taxes over 200 times, but there has not been any major impact on Thunder Bay<sup>8</sup>.

Furthermore, by catering to valued-added firms, the NWO TIZ implies that Northern Ontario's existing advantages are natural resources. The NWO TIZ should focus on enhancing all of the clusters in Northwestern Ontario's economy. Thus, building on existing advantages may not be beneficial to the Northwestern Ontario's economy because it will not facilitate diversification.

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<sup>7</sup> Note: Thunder Bay will not have any advantage over any neighbouring jurisdiction in Ontario because of the fact that if any company relocates in Ontario from a non-TIZ zone to a TIZ zone, they will not be eligible for tax relief.

<sup>8</sup> Source: Consultation Paper on Jobs and Economic Tax-Incentive Zones, Government of Ontario Report.

Additionally, there are programs in place to help Thunder Bay build on its existing advantages. Examples of this include OSTAR-Rural Economic Development<sup>9</sup>, the Business Retention and Expansion (BR + E)<sup>10</sup>, the Northern Ontario Heritage Fund Corporation<sup>11</sup>, and the Federal Economic Development Initiative for Northern Ontario<sup>12</sup> (FedNor).

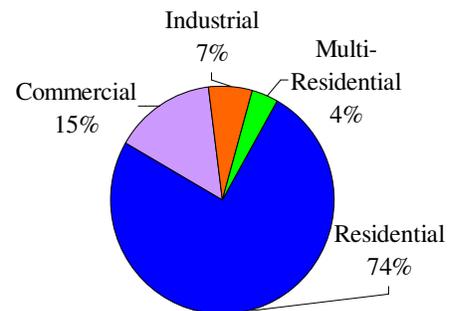
### B.1.3 - Maintain and Grow Commercial & Industrial Property Tax Base

Stakeholders have celebrated the belief that the NWO TIZ initiative will help with the declining value of commercial and industrial assessments. This has been adamantly denied by the Municipal Finance Office Association of Ontario (MFOA).

To determine whether or not this is a legitimate advantage, the direct effects and the indirect effects of the NWO TIZ initiative on the tax base must be determined. Primarily, new businesses and/or existing businesses that expand their property in Northwestern Ontario (as of January 1<sup>st</sup>, 2004) will no longer be required to pay any municipal property tax. This is a direct effect of the NWO TIZ and will not help to maintain or grow Northwestern Ontario's property tax base, rather it may create opportunity cost because new businesses or expansions that would have occurred regardless of the NWO TIZ initiative will now be 100 percent exempt from property taxes.

The indirect effects of the NWO TIZ initiative are in the form of increased land values of residential, commercial and industrial properties. If the NWO TIZ initiative is successful in stimulating the local economy, there will be increased demand for properties, resulting in upward pressure on the value of all three property classes. The increase in land value will boost the property tax base of all existing properties and in the long run (once the new values are confirmed by arms-length transactions). This positive externality can have a great impact on Thunder Bay's revenues because a large percentage of total property taxes<sup>13</sup> are made up of residential property taxes (refer to figure 1).

*Figure 1 – Breakdown of Thunder Bay's Property Tax Base*



<sup>9</sup> The OSTAR-Rural Economic Development is a five-year, \$200 million, program designed to fund projects that address barriers to economic growth in rural communities.

<sup>10</sup> The Business Retention and Expansion (BR + E) is a community-based, volunteer driven economic tool designated to encourage business growth by helping communities identify opportunities for expansion.

<sup>11</sup> The Northern Ontario Heritage Fund offers a range of programs that support northern infrastructure, telecommunications, tourism, community foundations and strategic partnerships.

<sup>12</sup> FedNor invests more than \$45 million a year into programs and services which bring economic benefit to northern cities.

<sup>13</sup> The values used to create the chart are from the Canadian Federation of Independent Business (CFIB), October 2000.

Alan Peter, in The Effectiveness of State Enterprise Zones, examines the costs of U.S. enterprise zones and found that "on average, state and local governments would gain about \$18,000 in revenue over a 20-year period for each job that was induced to locate in the state because of the zone incentive package. On the other hand, governments would lose about \$6,600 for every job that received incentives unnecessarily (the plant would have been built in the state anyway).

To truly determine the effects of the NWO TIZ initiative on the property tax base requires a cost/benefit analysis combined with scenario analysis (due to the highly uncertain nature of the variables), which is beyond the scope of this report. Although the actual impact cannot be determined, it is evident that the property tax base will be hurt in the short-run with the potential for growth in the long-run.

#### **B.1.4 - Providing Young People with Jobs Closer to Home**

The brain drain is a highly controversial issue in Thunder Bay and Canada, and has skeptics on both sides. Critics argue that graduates of Lakehead University and Confederation College are not provided reasonable career opportunities in Thunder Bay and that the majority of our young labour force is leaving for more prospective opportunities in Southern Ontario and the United States. However, this is a difficult theory to prove due to the absence of measurement tools, other than the Census. Recent Census data has demonstrated that Thunder Bay is behind Ontario and national averages in all age groups for university education (See Appendix Two). Nonetheless, the Census shows that Thunder Bay is above average in terms of percentage of the population with a trade or college certificate/diploma.

The types of businesses that are mainly eligible for the NWO TIZ are valued-added, and would require a college education or trade specialization, rather than a university degree. With this in mind, the NWO TIZ initiative could help to provide jobs for the youth already staying in Thunder Bay, but may have little to no effect on university graduates.

#### **B.1.5 - Gives Hope to Areas in Need of Economic Development**

Advocates of the NWO TIZ initiative argue that Thunder Bay will be able to attract investment and jobs more easily under the NWO TIZ. This advantage is mostly political hype because taxes are not the only key factor affecting business location. Other factors include proximity to major markets, input prices and availability of resources, utility costs, by-laws and municipal regulations, population and demographics and transportation.

## **B.2 - Potential Disadvantages of the NWO TIZ on Thunder Bay**

The three major concerns brought forward during the consultations are:

1. With the NWO TIZ in place there are **equality concerns**, mainly:
  - a. The potential for municipalities to compete for businesses. Thus, the process for selecting zones must be “fair, open, transparent, and based on clear criteria”
  - b. The fair treatment of existing business.
2. The NWO TIZ must be flexible and **able to reflect local priorities**.
3. **Taxes may not be the key affecting business location decisions**, other incentives will need to be addressed.

### **B.2.1 - Equality Concerns of the Tax-Incentive Zone**

As a result of the NWO TIZ initiative, equality issues could arise between NWO TIZ municipalities and non-TIZ municipalities. The Ontario Government has dealt with one equality concern by stipulating that businesses relocating within Ontario are not eligible to receive tax breaks, thus ensuring that NWO TIZ municipalities will not be taking businesses away from non-TIZ municipalities. An unresolved equality issue arises when a new business is starting-up because the Province will provide the TIZ regions with tax incentives, thus giving an unfair advantage to TIZ zones<sup>14</sup>.

As well, many Southern Ontario cities were denied TIZ status even though they met the criteria required. The Eves Government decided to create the TIZ for northern regions only, while unfairly dismissing southern municipality’s applications. Premier Eves has announced that there will be a tax incentive program for the more southern regions in the near future to deal with this equality issue. This may lead to many more TIZ appearing throughout the Province (domino effect), leading to a lack of utility for the NWO TIZ in Thunder Bay. Citizens of Southern Ontario were also upset with Premier Eves’s decision to include the Muskoka Lake area as part of the NWO TIZ. A southern town treasurer was disappointed when Premier Eves “magically included (as a TIZ) the Muskoka Lakes area, which is home to mainly exclusive cottages and resort investments.”

The NWO TIZ initiative also creates two equality issues regarding the treatment of existing businesses. Firstly, only new businesses will be able to receive tax breaks, while established businesses cannot. Many owners of existing businesses may be upset or betrayed since they

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<sup>14</sup> It should be well noted that taxes are not the primary reason for business decision, but it is a factor nonetheless, and the Province is assisting the TIZ regions with tax relief for start-up businesses.

have not received any breaks from the government while paying taxes for many years and contributing to the community in a great way. Secondly, new companies may harm existing businesses. Although the government has stipulated that NWO TIZ applicants must prove that they will not be hurting an existing business to be eligible, the criteria has not been released by the government. The criteria may not be very restrictive, thus allowing for indirect competition.

### **B.2.2 - Taxes May Not be the Key Affecting Business Location Decisions**

As previously mentioned, taxes are not the sole factor in determining business location. There are many other factors including, most importantly, proximity to other large markets. Bernard K. Fleishmann, in "Employment-Zone Empowerment and Renewal-Community Tax Incentives", claims that more than half of the businesses in designated empowerment zones claim that the tax credit was of "little or no importance in affecting their hiring or investing decisions".

Taxes may not be a major cause of unemployment either. Data published by the OECD illustrates that Sweden has the highest tax/GDP ratio of all member countries, with the third-lowest unemployment level, whereas Australia has the lowest tax ratio, with relatively high unemployment. Kelly Greene, in "Empowerment Zone Has Talent – But Who'll Lead", reveals that a Georgia Public Policy Foundation study in Atlanta released found that "zone administrators could identify no jobs created during the project's first two years of existence."

The Eves Government is looking to help reduce some of the other barriers of economic development in Northern Ontario by creating the Ontario Municipal Economic Infrastructure Financing Act (OMEIFA) and the Opportunity Bonds. The OMEIFA and Opportunity Bonds will be discussed later in the report.

### **B.3 - Lessons on Tax Incentives from Economic Theory**

Economic theory introduces potential concerns regarding tax incentives. Economic theory states that tax incentives will always cause some distortions in the economy, and at the worst they can be counterproductive. There has been much written on tax incentives and there are some caveats that should be considered before implementing any tax incentive policy. The first caveat is that the *TIZs can lead to pure giveaways*. If a firm is going to open up in Thunder Bay regardless of the tax incentives, the TIZ will benefit the owner of the firm, resulting in a pure giveaway.

Secondly, *the TIZ initiative can hurt existing businesses, creating no new jobs, thus leading to inefficient use of tax dollars*. If the TIZ initiative is successful, new businesses will open and

increase the supply of their product, while the older stores will lose customers and be forced to reduce their workforce, because the market size (customer base) will remain the same. Based on the increased supply and unchanged demand, prices will be forced downward. Thus, in essence, the TIZ initiative will be a subsidy of the new businesses products and the customers will benefit. The main question that a tax payer must ask *“Is this the best thing we could be subsidizing? Would the money be better spent on education or health care?”*

Many Northwestern Ontario citizens are asking this very question. Sentiment towards the TIZ is not all positive, as many Northerners are asking why is the Province willing to subsidize the products of profit seeking companies, while constantly cutting health care, education and social welfare programs. Conversely, it is not unusual to see that the Northwestern Ontario Association Chamber of Commerce (NOACC) and the Northern Ontario Development Network (NODN) support the TIZ initiative, as they represent the businesses of Northwestern Ontario. NOACC represents every active Chamber of Commerce in Northwestern Ontario, which includes approximately 2,500 businesses and 14 of the largest corporations in the region.

Furthermore, the TIZ initiative can steal industries from other communities, initializing a competitive war on TIZ benefits. If a business decides to locate in a TIZ, as opposed to a non-TIZ, the non-TIZ's tax payers will be worse off while the TIZ tax payers will be better off. Additionally, consumers of the non-TIZ will have to travel or outsource to find the products they require, leading to wasteful and inefficient costs for the people in the non-TIZ.

Finally, ***the TIZ can actually lead to tax increases***. The province of Ontario and the municipality of Thunder Bay must forgo a large amount of tax revenue, while maintaining the same level of service (regarding city services and infrastructure) to these new businesses. Thus, the province and municipalities may actually have to raise taxes in other areas or industries. It may be expected to see the residential property tax rates increase in Thunder Bay, to make up for the forgone revenues. Another option for the governments is to decrease or reduce services in other areas (cutbacks). Therefore, TIZ's may be effective at stimulating new investments and economic activity, but it is not always an efficient use of taxpayer dollars and is not an equitable means of treating existing businesses and communities.

## **B.4 - Other Factors Affecting the NWO TIZ Initiative**

There are many other factors, besides the tax breaks, that must be taken into consideration when analyzing the utility of the NWO TIZ initiative. The outcome of the Ontario Government election and Opportunity Bonds are two factors that must be considered.

### **B.4.1 - Ontario Government Election**

The Ontario Election further complicates the analysis of the NWO TIZ initiative and adds another element of uncertainty. The complication arises because of the potential for a new party to come to power. The Eves government has until the spring of 2004 to call an election. If Premier Eves is not re-elected, there is no guarantee that the next Premier will be as supportive of the NWO TIZ initiative. A recent poll conducted by Ipsos-Reid and the Globe and Mail<sup>15</sup> reveals that Eves Government has “sunk to their lowest level of voter support for the governing Progressive Conservative party in eight years” with 38 percent, while the Ontario Liberals lead the race with 48 percent and the NDP in third with 16 percent. The Liberals lead in every region of the province, including Northern Ontario (where the Liberals lead by 6 percent). Another poll conducted by Environics Research Group further substantiates the Ipsos-Reid poll. Environics reports that the Liberals have a growing lead over the PCs, with 50 percent of decided Ontario voters siding with the Liberals and 31 percent with the PCs. With an election looming, there is a potential for the NWO TIZ initiative to become less of a priority if Premier Eves is not re-elected

### **B.4.2 - Other Mechanisms in Place to Facilitate the NWO TIZ**

The NWO TIZ initiative is being implementing as part of the Ontario Governments “*Smart Growth Strategy*”. Thus, there are many other mechanisms in place that work with the NWO TIZ initiative to help increase the chances of success, including the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) and Opportunity Bonds.

#### **Ontario Municipal Economic Infrastructure Financing Authority**

The Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) was created in August 2002, with the purpose of promoting “healthy and prosperous communities by providing municipalities with more flexibility in investing in much needed capital infrastructure such as water works, roads and bridges and transportation. The OMEIFA will help small municipalities by allowing for easier access to bonds, allowing for more investments in infrastructure than is possible with individual borrowing programs. It will accomplish this by using the funds of tax-

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<sup>15</sup> The poll was conducted between April 12<sup>th</sup> and April 19<sup>th</sup>, 2003. The poll is based in a randomly selected sample of 1,000 adult Ontarians. With a sample size this large, the results are considered accurate to within +/- 3.1 percentage points, 19 times out of 20, if the entire Ontario population would have been sampled.

exempt Ontario Opportunity Bonds. The Government has provided the OMEIFA with an initial \$1 billion capital infusion, but Finance Minister Janet Ecker is quick to point out that, although the Government of Ontario has established OMEIFA, Ontario Opportunity Bonds will not be obligations of, and will not be guaranteed by, the Province of Ontario.

### **Ontario Opportunity Bonds**

The Ontario Opportunity Bonds will be issued by the OMEIFA to the general public, with the proceeds of the sales to be used to provide loans to municipalities to finance infrastructure projects. Interest earned by the individual investors will be exempt from provincial income tax (or corporate income tax), thus allowing the OMEIFA to lend money to the municipalities at lower rates because investors will accept a lower rate (due to the tax exemption). Benefits of the Opportunity Bonds are shared by all, including the municipalities that are able to access the bond market at lower costs and the individual investors that can purchase an Ontario tax-exempt bond (5-year fixed at a fixed rate of 4.25%). The bonds are a safe investment for individuals/corporations due to the fact that no municipalities have defaulted since 1930.

The City of Thunder Bay has a history of financing projects on a pay-as-you go basis, whereby projects are funded by contributions from reserves and the operating budgets. External financing is usually not a large part of Thunder Bay's financing mix. Therefore, Opportunity Bonds may not be a large factor for stimulating economic activity in Thunder Bay.

As opposed to providing municipalities with financing opportunities, the government should consider alternatives that will provide private investors with a source of capital/financing to reach the \$100,000 threshold. Two financing alternatives are Grow Bonds and Venture Capital. Grow Bonds benefit both communities and investors because communities are able to raise capital for financing businesses and stimulating economic growth, while investors are ensured a fair rate of return. Grow Bonds have been successful in Manitoba and are a perfect complement to the NWO TIZ tax incentives. Venture Capital is another form of financing, whereby the investor has an equity/ownership claim in the company. Grow Bonds and Venture Capital will also benefit the economy as there will be a resulting increase local ownership and control.

## **C. Experiences of Other Tax Incentive Programs**

Many other cities, provinces, and nations have used some form of tax incentive to help stimulate economically depressed areas. An analysis of each individual experience can help gauge the general value of tax incentive programs. Furthermore, the analysis can provide insight into the potential influence of the NWO TIZ initiative upon our local economy.

### **C.1- U.S. Empowerment Zones and Enterprise Communities**

Five years after the Empowerment Zone and Enterprise Community program commenced, the U.S. Department of Housing and Urban Development conducted a thorough study and prepared the report “*Interim Assessment of the Empowerment Zones and Enterprise Communities*”. The purpose of the study was to reveal preliminary insight on the program EZ/EC program.

The EZ/EC program was created by the U.S. Federal Government to promote economic, physical (buildings, warehouses, etc.) and social development of urban and rural areas through comprehensive planning and investment. In 1994, EZ/EC designations were awarded to 71 sites. The major share of Federal funding went to the six sites designated as Empowerment Zones (EZ)<sup>16</sup> and the remaining funds went to Enterprise Communities (EC).

The efforts of the EZ/EC are geared towards four key principles:

1. Economic Opportunity
2. Community-Based Partnership
3. Sustainable Community Development, and
4. A Strategic Vision for Change

The EZ/EC program is similar to the NWO TIZ initiative in the sense that both state and municipal governments act in partnership to offer tax incentives. A state normally provides a ten year General Income Tax Credit, Real Property Improvement Tax Credit, Investment Tax Credit, and/or Job Grants. The local communities must also make a commitment by offering a local package of incentives tailored to the unique needs of the zone. The incentives vary in every state and community; therefore it is not possible to directly compare the NWO TIZ incentives to the EZ/EC incentives.

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<sup>16</sup> The six EZ areas are New York, Philadelphia, Baltimore, Atlanta, Detroit and Chicago.

## Results of the EZ/EC

Reviewing the results of the EZ/EC program may provide some insight to the potential outcomes of the NWO TIZ initiative due to the similarity of the programs. The findings of the EZ/EC interim assessment were mixed, with both positive and negative impacts on the communities. The study's results are presented in respect to the programs four key principles.

### Economic Opportunity and Vitality

The central purpose of EZ/EC program is to increase the economic well-being of its residents, including employment level. The interim assessment results reveal that the program achieved the employment growth goals. Between 1995 and 2000, ***total employment grew in five of the six EZ areas and in the combined six-area total.*** Furthermore, for five of the six zones and the aggregate of the six, the employment trend in 1995-2000 was more favourable than it had been in 1990-1995, the period prior to EZ designation. The one caveat is that during the period studied (1995-2000) there was a general upturn in the U.S. economy and large cities specifically. This upturn makes it difficult to claim that the EZs were the cause of the growth employment.

To determine if there was correlation between employment growth and the EZs, the study assessed the experiences of the zones against neighbouring similar cities. The study found that during the 1995-2000 period, ***four of the six zones and the six in aggregate, experienced a higher rate of employment growth than other similar cities.*** Furthermore, employment accelerated faster during 1995-2000 in these four areas than in the comparison areas.

Although the analysis can show that some EZ have outperformed their comparison areas, the data does not explain how the EZ program may have contributed to the observed changes. Intensive study was combined with surveys to gather additional information and determine the contributions made by the EZ sites on the local economies. The resulting data provides corroborating evidence of the original data regarding the trend of increasing employment. The data from the survey reveals that between 1997 and 2000, the number of EZ businesses that employed local residents increased noticeably in all six zones. The survey also revealed that the EZ created ***entrepreneurial activity***, by which the number of zone businesses owned by residents increased by over 150 percent across the six zones, with the individual growth rates ranging from 61 percent to 265 percent.

The survey revealed some negative information about the EZ sites as well, mainly that **65 percent of all EZ businesses reported no benefits from being in the EZ.** Also, more than half of the businesses reported that the tax credits had no influence upon their hiring or investing decisions. The major obstacle that the EZ was unable to overcome was with the special challenges of providing jobs for the long-term unemployed, even though many of the EZ sites used resources to implement workforce development activities targeted to this population.

### **Community-Based Partnerships**

Community-based partnerships were promoted to reduce the complexities of each individual zone and to help accomplish the desired changes. Residents were asked to participate in the community through a variety of mechanisms, including involvement in strategic planning processes and membership on the government boards. The “Interim Assessment” report provided insight upon community-based partnerships.

“Across a sample of 18 intensive studies, the extent to which residents participated and influenced the EZ/EC government process **varied greatly**” but the Federal requirement “for citizen participation increased opportunities for resident and community organizations to be involved in the EZ/EC decision making process.” Although opportunities were increased, the studies reveal that “citizen participation in local EZ/EC initiatives decision making generally decreased from the strategic planning process to the program implementation stage.” The EZ/EC sites also prove that developing partnerships is challenging. The challenges were perpetuated further when the partnerships involve diverse stakeholders.

### **Sustainable Community Development**

The general concept of sustainable community development would not be successful unless combined with a broad effort to develop the human and physical capital of the community. Sustainable community development activities included a variety of “human services and education activities, physical improvement projects, housing and health initiatives, and public safety efforts. Although there is no definition for the sustainable community development, this study defined it as synonymous with “multi-faceted community improvement efforts.” The EZ sites explicitly designed their programs to be 10-year efforts and received funding for a similar timeframe. Since the Interim Assessment study was performed half way through the EZ/EC program **many of the sustainable community development projects at these sites are seen as long-term efforts, and are on-going.**

### **Strategic Vision for Change**

The study suggests that “communities with a clear strategic vision of comprehensive change, that could be effectively communicated to affect stakeholders, were in fact more likely to be successful at mobilizing support and in achieving progress in their zone activities.” The study also reveals an important fact, being that the “vision is more than just an articulation of themes or concepts; it needs to provide a guide for how the vision will be operational in specific programs and activities. Consequently, the vision must be concrete enough to lend itself to identification of strategies for implementation.” ***Communities that lacked a clear, concise vision that did not provide strategic clarity often experienced delays and diffusion of effort, and missed opportunities to leverage other resources.***

Many of the intensive studies revealed that the level of resident understanding of the EZ/EC mission declined over time. This demonstrates that strategic vision must be refined and changed over time; it must be a flexible and dynamic tool to be used by the communities.

## **C.2 - Similar Tax Incentive Programs in Canada**

There are many Canadian provinces that offer tax incentives to entice investments. The tax breaks offered in other Canadian jurisdictions and Northwestern Ontario has the similar purpose. The purpose is to promote economic growth by offering tax incentives to businesses that locate or expand into designated areas. The major weakness of the NWO TIZ is that the tax incentives offered are not comparable to the scope and depth of the tax breaks in other jurisdictions.

### **C.2.1 - Economic Diversification and Growth Enterprises Program**

With the intent of attracting companies to move into the province or for existing companies to expand their operations, the province of Newfoundland created the EDGE program in 1994. A business must make a minimum capital investment of \$300,000 or be able to generate sales of \$500,000 and have the potential to create 10 new permanent jobs to qualify for EDGE status. In addition, the EDGE status cannot give a business a direct competitive advantage over an existing business. The EDGE incentives include:

- Full relief of provincial corporate income tax, provincial health tax, post-secondary education tax and municipal property and/or municipal business taxes for a set period<sup>17</sup>.
- 50 percent rebate on federal corporate income tax
- Access to unserviced Crown land for \$1.00 (if required to implement a business plan.)

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<sup>17</sup> If the businesses are established within the Northeast Avalon (St. John) area, the tax break is in effect for 10 years, while if the businesses are established outside of the Northeast Avalon area the time period is 15 years.

The tax breaks offered by the EDGE program are far more extensive than the NWO TIZ's. The EDGE program offers many of the tax incentives that the NWO TIZ offers, in addition to a large rebate of both Federal and Provincial corporate income tax and free Crown land. The NWO TIZ may not be able to compete with the EDGE program.

Recent results issued by the Newfoundland Government reveal that **19 companies have received EDGE status, with a reported 500 jobs being created**. The companies are from all sectors of business, including manufacturing (resource based and non-resources based) and communications. Citizens have questioned the effectiveness of the EDGE program and assert that the creation of 500 new jobs is small when compared to the total unemployment level in Newfoundland.

The Newfoundland and Labrador Federation of Labour (NLFL) is a group who questions the wisdom of neglecting the tax base for the benefits of the EDGE program. The NLFL sentiment towards the EDGE program is revealed in their public statement: "On the one hand, the provincial government is cutting back and privatizing our public sector, driving wages downward and increasing unemployment, eventually losing tax revenue. On the other hand, by allowing major tax concessions to new businesses it is reducing potential tax revenues still further." The NLFL also believes that their "provincial tax base is eroding and there is no prospect of it recovering unless we pursue fair tax reform as a policy." A further concern is in regard to the low price for Crown land, many citizens feel that the Crown land should be preserved for their children and grandchildren as opposed to given away to profit-seeking businesses.

### **C.2.2 - Quebec Tax Holiday for Major Investments**

After an announcement in the Throne Speech of 2000, the Province of Quebec began offering a ten year tax holiday for major investments. The tax holiday will be applied to income tax (8.9 percent), taxes on capital<sup>18</sup>, and payroll tax (HSF – 4.26 percent). To be eligible for the tax holiday, there must be a minimum investment of \$300 million and an increase in payroll of at least \$4 million (approximately 100 new jobs)<sup>19</sup>. Also, an investment project that gives rise to \$15 million in payroll (approximately 350 new jobs) will be available for the tax holiday regardless of the invested amount. The tax holiday becomes effective once a minimum

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<sup>18</sup> The capital tax will vary depending on the type of business. General capital tax is 0.64 percent, while for financial institutions is 1.28 percent, for insurers 2 percent of premiums of life insurance and 3 percent of premiums for property.

<sup>19</sup> The requirement of an increase in payroll of at least \$4 million does not apply in the case where a project involving an investment of at least \$300 million involves the modernization or expansion of a production unit in Quebec.

investment threshold has been reached and applies retroactively as of the date the business began operations.

Originally, only the primary sector, manufacturing sector, and propulsive service sector (excluding placement bureaus and accounting services) were eligible for the tax break, but international resorts offering recreation and tourism content are now eligible as well.

Since the program began recently, the Quebec government has not conducted any studies to measure its impacts, but two recent examples of economic development can be drawn. The major limitation of these results is that it is not possible to determine if there is any correlation between these new investments and the ten year tax holiday.

- **TELUS Quebec invested over \$5 million, creating over 800 new jobs** in Rimouski.
- Groupe Gilles Soucy announced plans to expand operations. The expansion results in an **investment of \$60 million and a creation of 629 jobs** with the Quebec government's support.

The Province of Quebec offers a large variety of other incentives for all different sectors of the economy through "Investment Quebec". On July 9<sup>th</sup>, 2002 Investment Quebec announced the results of the program and revealed that it has financed \$4.5 billion during 2001/2002 contributing to the creation of over 18,400 new jobs over three years. Investment Quebec is a much larger program than the TIZ in Thunder Bay, and cannot be used for comparison.

The main criticism upon the ten year tax holiday for major investment is that it is a tax break for the wealthy. Only large companies, with access to a large amount of capital are able to take advantage of this tax incentive, raising equity issues. The Quebec government anticipates that the tax holiday will generate \$5 billion in investment and create over 16,000 jobs by 2005.

### **C.2.3 - Manitoba Business Environment**

Although there is no specific tax incentive program in Manitoba, the general tax environment is very attractive. In 2001, the Manitoba government announced that it would cut the basic provincial corporate income tax to 15 percent from 17 percent. The small business tax rate was cut from 6 percent to 5 percent and the small business threshold was increased to \$300,000 from \$200,000. The Manitoba Equity Tax Credit also encourages local investors to purchase new shares of smaller companies that are being traded on the Winnipeg Stock Exchange. The Manufacturing Investment Tax Credit "provides a 10 percent non-refundable tax credit (3 year

carry-back and 7 year carry-forward) applied against Manitoba corporate income tax payable.”<sup>20</sup> The Manitoba government states that ***over 10,000 new manufacturing jobs were created*** as a result of the Manufacturing Investment Tax Credit<sup>21</sup>.

#### **C.2.4 - Prince Edward Island Tax Incentive for Aerospace**

A sector specific tax rebate program in the Province of Prince Edward Island has been very successful since its inception. The tax breaks target aerospace or aviation related businesses. To be eligible for the tax breaks, a company must establish its operations at Slemon Park<sup>22</sup> in Summerside, PEI and must make use of the facilities. Operations include, but are not limited to, manufacturing, repair and overhaul, training and various aviation support businesses. If eligible, there are three provincial tax rebates, including corporate income tax, sales tax and real property tax.

Since the programs inception in January 1993, the program has stimulated the economy with ***six companies relocating or expanding, employing roughly 500 people and contributing approximately \$150 million to the provincial economy.***

#### **C.2.5 - Nova Scotia Tax Incentives**

Much like Manitoba, Nova Scotia does not have a specific TIZ program; rather the provincial government has put in place many independent tax incentives to facilitate growth. The tax credit programs cost taxpayers \$51 million in 1999.

Nova Scotia uses a harmonized federal and provincial sales tax of 15 percent, but sales tax is refundable to corporations. Also, Nova Scotia has an investment tax credit (ITCM&P), of 30 percent of capital costs, less government assistance, available for new manufacturing and processing equipment. From 1997 to October 15, 1998, a total of 356 companies used the ITCM&P generating investment of \$202.4 million. Furthermore, a special corporate income tax rate reduces the general federal rate on corporate profits from 28 percent to 22.12 per cent for manufacturing and processing activities. The Capital Cost Allowance allows taxpayers to charge up to a 30 percent declining balance on manufacturing machinery and equipment, thus allowing for a significant "write-off" of such assets in initial years of operation.

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20 Source: Government of Manitoba website (<http://www.gov.mb.ca/itm/trade/invest/busfacts/tax/tax4.html>)

21 The expiry date of the Manufacturing Investment Tax Credit is June 30, 2003, unless extended by the Province.

22 Slemon Park is a 1500 acre property of which 500 acres is currently occupied. Slemon Park includes an airport with two runways and numerous hangars ranging from 25,000 to 300,000 square feet.

Nova Scotia also has a small business tax credit, whereby Canadian controlled private corporations may be eligible for the deduction with respect to the first \$200,000 of business income. As an incentive to formation of a new business ventures, the provincial rate of tax is reduced to 0 percent for the first three fiscal periods on the first \$200,000 of annual taxable income for eligible businesses.

The Equity Tax Credit (ETC) program was introduced in 1994 to assist Nova Scotia small businesses, co-operatives and community economic development (CED) initiatives in obtaining equity financing (venture capital) by providing personal income tax credits for investments in Nova Scotia companies and Community Economic Development Investment Funds (CEDIF). It is a non-refundable personal income tax credit available to residents of Nova Scotia who make an eligible investment in a corporation that has been certified under the ETC program. The tax credit is equivalent to 30 percent of the amount invested and cannot exceed \$9,000 in any one year. From its inception in 1994 through to March 1999, 197 companies and 2,164 investors have participated in the Equity Tax Credit program. Participants have made \$22.5 million dollars in investments and have received \$6.6 million in credits.

## **D. Affected Organizations Position on the NWO TIZ Initiative**

Many of the organizations that will be affected by the NWO TIZ initiative have released position papers on their opinions regarding the NWO TIZ initiative. Each organization displays profound consequences that may arise when the NWO TIZ initiative commences.

### **D.1 - Municipal Finance Officers Association of Ontario**

The Municipal Finance Officers Association of Ontario (MFOA)<sup>23</sup> is an organization that is strongly opposed to the NWO TIZ initiative. In a conversation, John Bech-Hansen said that the MFOA “opposed the concept of TIZs largely based on the ambivalent experience of US jurisdictions.”

In November 2002, the MFOA issued a response to the NWO TIZ Initiative, that stated: “MFOA believes that the Tax Incentive Zone will provide designated communities with greater financial flexibility and have the potential to stimulate economic development in designated areas, but also believes that they [TIZ] are more likely to give rise to serious inequities, complexities and adverse impacts that call into question their viability as an economic development tool.”

One of the first concerns brought forth by the MFOA is in regards to the Federal Government. Mainly, the consultation document anticipates Federal participation, but “does not convey a sense as to what degree a federal decision *not* to participate would undermine the viability of the proposed initiative.” The Federal Government has no current plans to be involved in the NWO TIZ initiative.

An interesting point revealed by the MFOA is that the high number of TIZ applications from communities of all types does not provide evidence of strong support for the TIZ per se. These members were motivated to apply for TIZ status to ensure that other municipalities do not secure the status first, rather than applying because of a strong belief that the TIZ will create benefits for their own communities. A survey conducted by the MFOA in October 2002, indicated that a small majority, 53 percent, of respondents felt that the drawbacks of the NWO TIZ would outweigh the benefits.

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<sup>23</sup> The MFOA is a professional association concerned with both the professional interests of municipal finance officers and the financial interests of municipal government across Ontario. As an organization representing individuals who are responsible for handling the financial affairs of municipalities, and who are key advisors to council on matters of financial policy, the MFOA is well suited to provide an informed response to the “Bonds and Zones” initiative.

### Key Problems Brought Forward

The MFOA reveals that similar initiatives in other jurisdictions have yielded disappointing results and failed to live up to their original expectations. The key problems that were brought forward from previous similar tax initiatives were:

- “In many of the projects reviewed, the tax incentives offered were not large enough to considerably alter business location decisions. Interviews that were conducted with firms that recently decided to locate in an enterprise zone in the U.S. suggested that tax incentives are only a small part of the reason they decided to locate in these areas.<sup>24</sup>”
- “When tax subsidies are effective, they are most likely to draw firms who would have located nearby in any case. Many economists in the U.S. claim that enterprise zones only succeeded in relocating business from neighbouring locations.<sup>25</sup>”
- “There are many studies and research paper that have found that tax incentives have not had any effect on the income and employment of the zones residents.<sup>26</sup>”
- “The creation of TIZ creates a “slippery slope” as the municipalities that border the TIZ lobby for inclusion or the creation of a new zone. This eventually gives rise to a domino effect, such as in Arkansas and Ohio, where nearly all counties are enterprise zones.<sup>27</sup>”
- “TIZ raise fundamental questions about equity. There is little equity in giving tax breaks to newcomer’s businesses in a tax incentive zone unless equivalent relief will be offered to existing employers who may have been paying local taxes and providing local employment in the community for decades.”

MFOA brings up the issue that the NWO TIZ is not consistent with one of the goals of the property tax and assessment system reform. The goal of attaining a more equitable and level business tax playing field between Ontario municipalities is hindered by the NWO TIZ. Furthermore, the MFOA believes that “any tax break offered to new businesses in tax incentive zones will only further exacerbate and intensify the inequities faced by other properties in the same municipality that are currently overpaying as a result of being subjected to claw backs.<sup>28</sup>”

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<sup>24</sup> Fisher, Peter S., and Alan H. Peters. 1997. “Tax and Spending Incentives and Enterprise Zones,” *New England Economic Review* March/April 1997. 109-130.

<sup>25</sup> Schwartz, Amy Ellen and Ingrid Gould Ellen. May 2002. “Cautionary Notes for Competitive Cities,” *Wagner School of Public Service, New York University*.

<sup>26</sup> Papke, Leslie. 1994. “Tax Policy and Urban Development: Evidence from the Indiana Enterprise Zone Program.” *Journal of Public Economics* 54(1): 37 – 49

<sup>27</sup> New Jersey Sales and Use Tax Commission recommendation pursuant to P.L. 1999, C. 416, March 26, 2002.

<sup>28</sup> Properties in the commercial, industrial, and multi-residential classes that are entitled to assessment-related tax decrease have a share of those decreases (sometime approaching 100 per cent) clawed back to fund a five per cent annual cap on assessment-related tax increase on properties in those same classes.

### **MFOA Survey**

A survey that was recently conducted by the MFOA membership can shed some light upon the sentiments of the Northern area upon the creation of the NWO TIZ (see Appendix Three for entire survey results). The survey revealed that 46 percent of the members from the Northern region feel that our communities should be prepared to offer no local tax incentives, while 100 percent of the North believes that the creation of the NWO TIZ could possibly create further complexities with the current tax system, with respect to property taxes. In the final question of the survey, the MFOA asked its members whether they believed that the potential benefits (ex. new economic development, investment, and job creation) would outweigh the potential complexities, inequities, or adverse impacts that may arise and 63 percent responded that the benefits would outweigh the disadvantages.

### **D.2 - Canadian Institute of Public Real Estate Companies**

The Canadian Institute of Public Real Estate Companies (CIPREC) is one of Canada's leading national real estate associations, with over 45 members who control approximately \$70 billion in real estate assets. In an October 2002 position paper on the NWO TIZ, CIPREC states "our members support the general concept of encouraging development in certain designated zones; however we have serious concerns about the potential for a negative impact on existing assets in the commercial and industrial markets." CIPREC revealed that a similar project in Montreal dislocated the local real estate market, and had a considerably negative impact on commercial landlords.

CIPREC believes that the NWO TIZ initiative should only be implemented if it can be shown that it has absolutely no negative competitive impact on surrounding commercial buildings. Ian Bacque of CIPREC says "whenever you draw a line, the properties just on the other side will find it harder to attract tenants and will likely suffer as a result." CIPREC also believe that new housing (freehold/condominium and rental housing) be included under the NWO TIZ initiative.

### **D.3 - Association of Municipal Managers, Clerks and Treasurers**

The Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO) represent over 2000 municipal professionals across the province. In their letter to Honorable Janet Ecker (Minister of Finance), AMCTO states that they are "concerned that the establishment of TIZ adds another layer of complexity and confusion to commercial and industrial property taxation. We [AMCTO] believe that the current property tax capping provisions that apply to commercial and industrial properties will make the implementation of these Zones more difficult, with a

resulting *increase in the tax burden placed on residential tax payers*. It would also seem that the concept of creating Tax Incentive Zones is counterproductive to the apparent provincial intent to see municipalities move towards common municipal tax rates.” As of February 26, 2003 the AMCTO remained unconvinced that the Tax Incentive Zone initiatives are a priority for most municipalities.

#### **D.4 - Chambers of Commerce**

The Thunder Bay Chamber of Commerce, Northwestern Ontario Associated Chambers of Commerce and the Ontario Chamber of Commerce are all supporters of the NWO TIZ initiative and have made public announcements proclaiming their support. The Chamber’s represent business and believe the NWO TIZ initiative will be a great economic stimulus, although there is the potential for a residential tax increase. In the December 8<sup>th</sup> 2002 Chronicle Journal, Mary Long-Irwin, President of the Thunder Bay Chamber of Commerce, called the tax incentive zone initiative “a great idea” to draw industry to areas struggling economically. Tannis Drysdale, President of NOACC, has also been very vocal on the topic.

#### **D.5 - Canadian Federation of Independent Businesses (CFIB)**

It is interesting to observe that SME’s feel that the government is waiving appropriate taxes for the NWO TIZ initiative. According to a Canadian Federation of Independent Business (CFIB) member research that was conducted before the NWO TIZ initiative was detailed, SME’s claimed that a further reduction in the Employer Health Tax would further assist their sector and that Capital Tax Relief was positively acknowledged by about one-third of respondents. Also, provincial (education) property tax and municipal property tax were at the top of the ‘future priority’ list for tax relief among SMEs.

## **E. Conclusion**

The 2003 *Thunder Bay Ventures Business Opinion Survey* reveals that 64 percent of all small business respondents felt the NWO TIZ initiative would positively affect their business but that there is a lack of understanding. This report reveals that Tax Incentive Zones are a double-edged sword, and although they may be useful for stimulating economic activity, there is a potential for many negative externalities. The report also highlights many important facts and issues regarding tax based incentive programs.

Tax based incentive programs have been a useful economic development tool in other provinces and nations. The EZ/EC program was successful at creating jobs, as the aggregate of all six enterprise zones experienced a higher rate of employment growth than other similar cities. The EDGE program has created 500 jobs with 19 companies receiving EDGE status, while the Manitoba Government claims that over 10,000 new manufacturing jobs were created as a result of the Manufacturing Investment Tax Credit. The PEI Government announced that the Aerospace Tax Program has caused six companies to relocate or expand, employing approximately 500 people and injecting \$150 million into the provincial economy. The Nova Scotia Equity Tax Credit has had 197 companies and 2,164 investors participate in investing activities inside the province. The tax breaks offered by the NWO TIZ are not comparable to the breaks offered by many of the tax incentive programs in other jurisdictions and may not lead to a similar level of economic activity.

A negative impact of tax incentive programs arises as a result of the tax revenues forgone. Although the EDGE program stimulated economic activity, many residents of Newfoundland are upset that the government is forgoing tax revenues, while constantly downsizing the public sector. The tax credit in Nova Scotia cost tax payers \$51 million in 1998 and was estimated to grow to \$100 million in 2002. Economic theory also indicates that tax incentives may lead to tax increases in other areas, namely residential property taxes. Municipalities will forgo a large amount of tax revenue, while maintaining the same level of service to the new businesses. "Somehow we will have to still pay the bills" said Kenora Mayor Dave Canfield in response to the TIZ initiative "for us to not collect those taxes means we'd have to pass all the costs on to the municipal tax payers." AMCTO also believes that the NWO TIZ will result in an increased tax burden placed upon the residential tax payers and further complicate the tax system. The NWO TIZ initiative will hurt the property tax base in the short run, but will have the potential for a positive impact in the future.

A residential property tax increase, as a result of the NWO TIZ initiative, could be devastating as much of the opportunity for youths to remain in Northwestern Ontario as a result of new jobs will be offset by higher residential taxes. Also, by catering to value-added companies many of the jobs created will not require a university education, thus the NWO TIZ initiative may not help reduce Thunder Bay's brain drain since many students will still be looking for employment elsewhere.

A major cause of failure for tax incentive programs is that taxes are not the only factor affecting business decisions. Proximity to major markets, labour supply and availability of resources are some of the other factors affecting business location. Half of the businesses in Enterprise Zones claim that taxes weren't considered in investment or hiring decisions. The tax breaks offered by the NWO TIZ may not be enough to stimulate economic activity or compete with other the tax breaks offered by other jurisdictions. Small businesses will receive the least amount of provincial relief under the NWO TIZ as they are not liable for two of the three taxes that are being relieved.

Tax incentive programs also give rise to many equity issues. Existing business will be treated differently and may feel betrayed by having to continue to pay taxes, while new businesses are exempt. The MFOA claims that the NWO TIZ initiative will further exacerbate and intensify the inequities faced by other properties in the same municipality. Municipalities outside the NWO TIZ will be disadvantaged, especially the regions on the borders. CIPREC claims that the property values will decrease in the cities just on the outside of the NWO TIZ, as it will become hard to attract tenants. To combat this inequity, Premier Eves has announced that Southern Ontario will receive a tax incentive program in the future. If Southern Ontario receives similar tax incentives in the future, the NWO TIZ will become futile and inefficient as overhead cost expenses may remain constant (zone administrator will still be required).

This report reveals that tax incentive zones can be effective at stimulating economic activity, but there are host of equity issues that go along with the relatively inefficient use of taxpayer dollars.

## **Appendix One – Thunder Bay Economy**

The following analysis on the Thunder Bay economy was completed by using public information and through discussion with city officials, community stakeholders and business professors at Lakehead University. Lakehead University Finance Professor Ken Hartviken's report to city council "*Building a Balanced Economy: The City of Thunder Bay and the Fair Wage Proposal*" and the Standard and Poor's "*Canadian Ratings for the City of Thunder Bay*" were a two large sources of information. The websites of the Tourism & Economic Development office, the City of Thunder Bay and Statistics Canada were also utilized in portraying the local economy.

### **A1.1 - Economic Overview**

Thunder Bay is home to 110,000 people and is located on the westernmost end of Lake Superior. Approximately 12,000 people live outside the city, in the census metropolitan area (CMA). Being the 12th largest city in Ontario and the 29th largest in Canada, Thunder Bay has access to both eastern and western markets as well as the American Midwest.

Thunder Bay has a relatively undiversified economy, with a few dominant industries: manufacturing (principally forestry related), retail trade, and the public sector (healthcare, education, and public administration). The public sector plays a very large role in the local economy, employing 30 percent of the city's labour force. Retail trade represents the second biggest group of employers at 14 percent, and the forest products sector accounts for another 10 percent of Thunder Bay workers.

Standard & Poor's Thunder Bay rating reveals a flat trend in the taxable assessment base, as there has been little growth in the number of taxable properties (estimated to be less than 0.5 percent per year) over the long-term. Total taxable assessed values in Thunder Bay decreased in 2001 by four percent from 2000, when properties in Ontario were reassessed for the 2001 taxation year. Standards and Poor's points out that "a good portion of the decrease stemmed from the recognition of obsolescence and the resulting readjustment of property values for some large properties in the industrial class."

Standard & Poor's believes that "beyond the near term, faster economic growth should resume as a recovery in the North American economy gathers momentum and market conditions in the forest products sector improve." Moreover, economic growth may be stimulated by entrepreneurial activity, as the Tourism & Economic Development office claims that "entrepreneurship is growing four percent faster in Thunder Bay than in Canada."

Thunder Bay's economy has profited from a momentous injection of new commercial, industrial and institutional investments. Exhibit 1 reveals investments in Thunder Bay since 1999.

*Exhibit 1 - Investment In Thunder Bay*

Year	Total For Year
1999 Completions	\$58,600,000.00
2000 Completions	\$86,950,000.00
2001 Completions	\$372,800,000.00
2002 Completions	\$47,650,000.00
2003 Completions (to date)	\$3,850,000.00
Underway	\$466,150,000.00
Proposed	\$204,500,000.00

Thunder Bay's unemployment rate rose to 7.5 percent in 2001 as the Ontario economy slowed, after falling to 6.3 percent in 2000 from 7.8 percent in 1999.

## **A1.2 - Financial Performance**

Thunder Bay is a single-tier, local government responsible for social services, public works, police and fire services, transit, public health, libraries, recreational facilities, and urban planning and development, amongst others. The cities primary sources of revenue are business taxes, grants and transfers, and user fees, while primary operating expenses are social services, public works, and police and fire services. The Municipality has a history of financing projects on a pay-as-you go basis, whereby projects are funded by contributions from reserves and operating budgets. External financing is usually not a large part of Thunder Bay's financing mix.

In the most recent publishing (May 6, 2002) of Standard & Poors Canadian Ratings, Thunder Bay was given an "**A+** / **Stable**" credit rating. The rationale for the rating was rooted in investment-led gains by the Thunder Bay economy in recent years and the city's ownership of two highly valuable municipal utility assets, Thunder Bay Telephone and Thunder Bay Hydro. The ratings strength was somewhat offset by Thunder Bay's declining population and relatively narrow economic base. Thunder Bay's telephone division had net incomes of \$16,439,764 and \$16,609,410 for the 2001 and 2000 years respectively. Thunder Bay Hydro had earning of \$771,957 for the year ended 2001.

### A1.3 - Demographic Patterns

The 2001 Census showed Thunder Bay's population fell by 3.7 percent from 1996 to 2001, equaling an average annual rate of 0.8 percent. Standard and Poor's points out that "the decrease represents acceleration in the rate of decline in the latter half of the decade as the previous census showed the city's population fell at an average annual rate of less than 0.1 percent from 1991 to 1996."

When further analyzing the population, an even more disturbing pattern is revealed. The population of Thunder Bay's people in the age group of 20 to 54 has decreased to 35 percent of the total population in 2001 from 51 percent in 1996. Most of the decrease is due to a loss in the 25 to 54 age group. Exhibit 2 reveals this fact and also shows that this pattern is similar to the aggregate pattern of the entire province of Ontario.

*Exhibit 2 – Trends in Population Cohorts*

Age Group	1996				2001			
	Thunder Bay	% of Pop.	Ontario	% of Pop.	Thunder Bay	% of Pop.	Ontario	% of Pop.
20 - 24	8,710	6.94%	703,475	6.54%	7,555	6.19%	718,420	6.30%
25 - 54	55,330	44.06%	4,863,980	45.23%	35,225	28.88%	3,518,010	30.83%
Total	125,565	<b>51.00%</b>	10,753,575	<b>51.77%</b>	121,985	<b>35.07%</b>	11,410,050	<b>37.13%</b>

The median age of Thunder Bay's population has increased in 2001 to 39.1 from the average age of 36.7 in 1996.

### A1.4 - Current Situation

In their report, "*Grow Bonds North A Sustainable Solution*", NOAAC provides some insight into the current economic situation that all of Northern Ontario cities are facing. NOAAC claims that all "Northern Ontario communities tend to be largely dependent on single, multi-national, resource based companies. For a number of reasons including a consistent drop in commodity prices over the past century, and technological mechanization these resource based companies have required a steadily declined employee base."

Ken Hartviksen, in "*Building a Balanced Economy: The City of Thunder Bay and the Fair Wage Proposal*", reveals that there are two primary challenges facing the City of Thunder Bay. "The first is the declining population, and the structural changes in the population. The second is the lack of growth in the private sector, most notably the lack of new small and medium sized enterprises (SMEs)." The SME's that are lacking the most are the exporters of goods and

services. There is also a lack of local ownership and control of the for-profit enterprises. Furthermore, Professor Hartviksen claims that much of the new investment in the community is coming from senior levels of government, while only a few of the major investments were from the private sector. Although investment from government is a necessary part of an economy's structure, over dependence can be risky. The risk of over dependence increases as the Thunder Bay's population decreases because as population levels decrease, so does political influence.

Professor Hartviksen also reveals positive news regarding the Thunder Bay economy that is pertinent to the NWO TIZ initiative. "Opportunities in the past certainly existed where value added businesses could have been established to take advantage of the bulk of goods flowing through the city from the west. Bulk agricultural and mining products have been transshipped through the port without any additional value-added processing." The NWO TIZ initiative may help to bring value added businesses to Thunder Bay to take advantage of this opportunity.

## Appendix Two – 2001 Relevant Education Statistics<sup>29</sup>

<b>Population Aged 20-34</b>	<b>Thunder Bay</b>	<b>Ontario</b>	<b>Canada</b>
% of the population aged 20-34 with a trades certificate or diploma	9.6	7.9	10.8
% of the population aged 20-34 with a college certificate or diploma	21.8	19.5	19.9
% of the population aged 20-34 with a university certificate, diploma or degree	19.2	25.7	22.9

<b>Population Aged 35-44</b>	<b>Thunder Bay</b>	<b>Ontario</b>	<b>Canada</b>
% of the population aged 35-44 with a trades certificate or diploma	16.3	11.5	13.7
% of the population aged 35-44 with a college certificate or diploma	22.5	21.2	19.7
% of the population aged 35-44 with a university certificate, diploma or degree	17.4	24.3	21.9

<b>Population Aged 45-64</b>	<b>Thunder Bay</b>	<b>Ontario</b>	<b>Canada</b>
% of the population aged 45-64 with a trades certificate or diploma	15.9	11.6	12.8
% of the population aged 45-64 with a college certificate or diploma	17.8	16.6	15.0
% of the population aged 45-64 with a university certificate, diploma or degree	18.2	21.5	20.3

## 1996 Relevant Education Data

<b>Highest level of schooling for the population age 25 years and over</b>	<b>Thunder Bay</b>	<b>Ontario</b>	<b>Canada</b>
% of the population 25 years of age and over with trades or non-university certificate or diploma or higher	44.8	45.9	44.2
% of the population 25 years of age and over who have completed university	14.9	18.8	14.7

<sup>29</sup> All information is taken from the 2001 and 1996 Census. Thunder Bay data is for Census Metropolitan Area, which includes residents of the townships of O'Connor, Conmee, Gillies, Neebing, Oliver Paipoonge, Shuniah, as well as the Fort William 52 Indian Reserve and the City of Thunder Bay.

## Appendix Three – MFOA Survey

### Questions

1. Should TIZs be permitted to be established only in rural and Northern communities, as has been implied in earlier statements by government officials, or should they also be permitted in distressed urban areas (e.g., areas experiencing challenges in retaining or attracting investment and jobs)?
  - a Only rural and or Northern communities.
  - b Distressed urban areas as well.

	Central	Eastern	Northern	S. Western	GTA
a	29%	37%	86%	29%	17%
b	71%	63%	14%	71%	83%
Totals	100%	100%	100%	100%	100%

2. Should TIZs be defined in order to match the areas covered by existing planning units, i.e., set up around a BIA, industrial park or a specific site already identified for development—or should they be defined as a larger specific area within a municipality (or an area that crosses municipal boundaries) proposed by the local community/communities?
  - a TIZs should only cover existing planning areas.
  - b TIZs should be allowed to cover broader areas within a municipality, possibly crossing municipal boundaries.

	Central	Eastern	Northern	S. Western	GTA
a	29%	15%	0%	19%	33%
b	71%	85%	100%	81%	67%
Totals	100%	100%	100%	100%	100%

3. Zone designation is intended to be time-limited, so as to give businesses a reasonable amount of time to establish themselves in the marketplace—after which all businesses inside the zone will be fully taxed (provincial and municipal) at normal rates. Similar programs in the U.S. are typically limited to no more than 10 to 15 years. What do you consider to be a reasonable duration for a TIZ?
  - a 5 years
  - b 10 years
  - c 15 years

	Central	Eastern	Northern	S. Western	GTA
a	36%	50%	25%	27%	14%
b	57%	25%	63%	68%	71%
c	7%	25%	13%	5%	14%
Totals	100%	100%	100%	100%	100%

## Tax Incentive Zones: Do They Work?

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4. In designing a tax-incentive zone program, the government will need to identify basic eligibility criteria for a community to meet in order to qualify as a TIZ. What local measures do you think should be given the most consideration? (**Please check three only**)
- a Property assessment growth/decline
  - b Unemployment rate
  - c Job loss
  - d Population loss
  - e Per capita income
  - f Existence and condition of local infrastructure
  - g Current industrial diversity in the area
  - h Labour pool skill level and supporting training/educational institutions or organizations
  - i Existence of a significant local development project (i.e., creation or expansion of new public or private enterprise)

	Central	Eastern	Northern	S. Western	GTA
a	0%	32%	10%	33%	24%
b	33%	21%	14%	16%	18%
c	15%	8%	19%	5%	12%
d	4%	0%	38%	11%	0%
e	4%	6%	0%	13%	6%
f	30%	23%	14%	10%	29%
g	7%	6%	5%	6%	6%
h	4%	2%	0%	2%	6%
i	4%	4%	0%	4%	0%
Totals	100%	100%	100%	100%	100%

5. What specific kinds of local tax or other incentives do you believe your community would be prepared to give to a TIZ? (**Please check as many as apply**).
- a None – we would seek to attract new business only on the basis of any provincial or federal tax breaks offered to TIZs.
  - b Partial or total municipal property tax relief.
  - c Partial or total relief from other municipal fees, development charges, utility charges, etc.
  - d Financial start-up assistance.

	Central	Eastern	Northern	S. Western	GTA
a	53%	21%	46%	33%	57%
b	21%	34%	31%	33%	14%
c	21%	41%	23%	33%	29%
d	5%	3%	0%	0%	0%
Totals	100%	100%	100%	100%	100%

## Tax Incentive Zones: Do They Work?

6. A major issue is how existing businesses located in a TIZ should be treated. Should they be entitled to the same tax breaks that new business get (e.g., if zero property tax for new investors, zero property tax for existing businesses within the TIZ)?—or should existing businesses within a TIZ be entitled to tax breaks only for *incremental* job creation, investment, assessment growth, etc., over existing levels?
- a Even though it means a loss of tax revenue to the municipality, fairness demands that both existing and new businesses in a TIZ should be subject to the same property tax treatment.
  - b We can't afford to lose any current property tax revenue, so if we offered relief it would only be on *incremental* assessment growth by existing businesses within a TIZ.
  - c Existing businesses within a TIZ should receive no special tax treatment at all.
  - d We would not likely set up a TIZ in an area that would have any existing businesses in it.

	Central	Eastern	Northern	S. Western	GTA
a	0%	10%	25%	29%	17%
b	54%	65%	75%	38%	50%
c	15%	15%	0%	14%	17%
d	31%	10%	0%	19%	17%
Totals	100%	100%	100%	100%	100%

7. TIZ proposals may in many instances originate from lower tier municipalities. In areas with two-tier municipal structures, what role do you envisage the upper tier municipality playing if the lower-tier municipality wishes to offer property tax relief?
- a Upper tier municipalities should not play a role (e.g., by forgoing or remitting that share of upper tier taxes attributable to the TIZ) as this might antagonize the other lower-tier municipalities in the upper-tier area that did not receive the TIZ designation. The lower-tier municipality with the TIZ should instead be compelled to continue to fund the upper-tier portion from taxpayers elsewhere in the municipality.
  - b Upper tier municipalities should play a role (e.g., forgo or remit that share of upper tier taxes attributable to the TIZ), to demonstrate the kind of broader community support for the TIZ that the province is seeking from applicants.
  - c In 2-tier structures, only the upper tier municipality should be permitted to develop and submit TIZ proposals.

	Central	Eastern	Northern	S. Western	GTA
a	21%	21%	0%	22%	0%
b	50%	42%	40%	67%	83%
c	29%	37%	60%	11%	17%
Totals	100%	100%	100%	100%	100%

8. Should MFOA advocate that any property tax relief offered by a municipality within a TIZ should be offered only on the condition that the provincial government offers a matching (i.e., prorated) reduction of the Business Education Tax within the TIZ?
- a Yes – It's the only way municipalities could deliver a property tax incentive large enough to have an impact on where businesses locate.
  - b No – It's more important for the province to deliver other kinds of tax incentives in TIZs (e.g., corporate income or payroll tax reductions, etc.).

	Central	Eastern	Northern	S. Western	GTA
a	64%	65%	38%	70%	63%
b	36%	35%	63%	30%	38%
Totals	100%	100%	100%	100%	100%

## Tax Incentive Zones: Do They Work?

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9. Do you think it reasonable to assume that the creation of TIZs in which municipal tax relief is provided could create further complexity with respect to the operation of the current property tax system—e.g., capping/clawbacks, mandatory New Construction policy, or other aspects of the current property tax system—particularly if a TIZ covers a significant part of an existing commercial/industrial area?

- a Yes
- b No

	Central	Eastern	Northern	S. Western	GTA
a	100%	90%	100%	95%	88%
b	0%	10%	0%	5%	13%
Totals	100%	100%	100%	100%	100%

10. The government is concerned that some Ontario businesses may simply choose to relocate within a community—or move from one Ontario community to another—to take advantage of a TIZ designation, resulting in harm to communities without a TIZ, and no net increase in Ontario jobs. How should these kinds of potential adverse effects be dealt with?

- a Nothing needs to be done because business relocation is not likely to be a major problem.
- b Business relocation could be a problem and it is not clear what might be done to deter it.
- c Business relocation might be a problem, but could be addressed by doing the following:

	Central	Eastern	Northern	S. Western	GTA
a	7%	42%	25%	18%	0%
b	71%	58%	50%	59%	50%
c	21%	0%	25%	23%	50%
Totals	100%	100%	100%	100%	100%

11. Overall, do you think the potential benefits of TIZs—i.e., new economic development, investment and job creation in areas currently facing economic hardship across the province—outweigh the potential complexities, inequities or adverse impacts to which they may give rise?

- a Yes
- b No

	Central	Eastern	Northern	S. Western	GTA
a	36%	75%	63%	36%	13%
b	64%	25%	38%	64%	88%
Totals	100%	100%	100%	100%	100%

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