STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES

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Mr. Kevin Phillips
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Published under the authority of The Hon. Corey Tochor, Speaker

[The committee met at 13:30.]

The Chair: — All right. Welcome, members, to committee. Sitting in is myself as Chair. We have committee members: Terry Dennis, Warren Kaeding — Glen Hart will be attending shortly; he'll be here later — Kevin Phillips, and sitting in for Fred Bradshaw is Muhammad Fiaz, and sitting in for Ryan Meili is Ms. Cathy Sproule.

We will begin with moving on to Bill No. 70, *The Provincial Sales Tax Amendment Act*. Okay, we have one document to table first today before we go to the other ones. It is CCA 41-28, Saskatchewan Gaming Corporation: Responses to questions raised at the May 2nd, 2017 meeting.

Bill No. 70 — *The Provincial Sales Tax Amendment Act, 2017*

Clause 1

The Chair: — So moving on to Bill 70, *The Provincial Sales Tax Amendment Act, 2017*, clause 1, short title. Minister Doherty, you can begin by introducing your officials and making any opening comments that you wish.

Hon. Mr. Doherty: — Thank you, Madam Chair, and thank you to committee members and Ms. Sproule for spending your Thursday afternoon here going over some taxation legislation. I'm delighted to be here this afternoon.

I'll begin by introducing Ministry of Finance officials joining me here today. Joined by Clare Isman, the deputy minister of Finance to my far left; Mr. Brent Hebert, assistant deputy minister, revenue division, to my immediate left; Arun Srinivas, executive director, taxation and intergovernmental affairs, to my immediate right; and seated behind me, Madam Chair, is Larry Jacobson, director, tax information and compliance; Joanne Brockman, executive director, economic and fiscal policy; and Mr. Bob McInnes, analyst, taxation and intergovernmental affairs; as well as Morgan Bradshaw and Paul Hamnett from my office. I think that covers everyone.

So, Madam Chair, some opening comments. The amendments to *The Provincial Sales Tax Act* implement the expansion of the provincial sales tax base and increase the tax rate as announced in our government's 2017-18 budget.

The 2017-18 budget introduced a number of revenue initiatives to address the fiscal challenge and to shift the province's revenue base away from its reliance on non-renewable resource revenues. These revenue initiatives modernize and simplify many aspects of the provincial tax system, while ensuring that Saskatchewan's taxes remain fair to all residents and businesses and competitive with neighbouring jurisdictions.

This is being accomplished by eliminating some long-standing tax exemptions. In some cases, eliminating these tax exemptions will simplify tax rules for consumers and businesses. Other jurisdictions commonly tax many of these goods and services. The 2017-18 budget does maintain many of the current PST [provincial sales tax] exemptions for basic necessities, including basic groceries, heating fuels, residential electricity, prescription drugs, and reading materials.

Moving now to the specific amendments contained in this bill. The PST exemptions for children's clothing and for restaurant meals and snack foods is eliminated. The PST exemption for used cars is maintained, but the value of a trade-in will no longer be deductible in determining the PST on the purchase of vehicles that are new or have not been previously taxed in Saskatchewan. These measures became effective April 1, 2017.

The bill reforms the taxation of contracts for the repair, renovation, or improvement of real property. New contracts entered into on or after April 1, 2017 will be subject to PST on the total contract price to the purchaser. However, contractors will now be eligible to acquire tax-free building materials for use in fulfilling a contract.

This change removes the distinction for PST purposes that has existed between contracts relating to real property and those relating to tangible personal property, simplifying the PST rules for contractors and their customers. This change will also benefit contractors by improving their cash flow and improving their competitiveness in bidding for jobs both inside and outside of Saskatchewan.

The PST base is expanded to insurance premiums. This includes all life, accident, and health insurance, all property, vehicle, liability, and casualty insurance, as well as all agricultural insurance. The tax will apply where the insured is resident in Saskatchewan or the premiums are paid in respect of property located in Saskatchewan. Expanding the PST to all types of insurance from all insurance providers will ensure fairness in its application to all consumers and businesses.

And finally, Madam Chair, the PST rate is increased from 5 to 6 per cent, effective March 23rd, 2017.

In addition to these changes, this bill also includes some housekeeping items that strengthen and modernize the Act, to sustain the province's revenue base in today's ever-changing business environment. The definition of computer services is being repealed, which will later be added to the regulations so that the ministry can be more proactive in the application of the PST to the ever-changing digital environment.

The definition of the term "lease" is being updated to help identify, distinguish, and clarify a rental of tangible personal property. The definition of "tangible personal property" is being updated to include gases, which aligns with definitions used in other jurisdictions. Refunds on real property contracts are being limited to the tax amounts that were paid in error. The definition of vendor is being updated to include e-commerce businesses selling and shipping goods into the province in order to protect Saskatchewan-based retailers.

A new section is being added which adds offences and penalties for persons failing to become licensed to collect and remit the PST, similar to measures that are in place for fuel and tobacco taxes.

And as is common practice, Finance continues to work with stakeholders and industry organizations to develop transition rules and refine its understanding and insight of how the PST applies to the expanded revenue base.

I want to thank you, Madam Chair, and members of the committee for the opportunity to make these opening comments. And we'd now be pleased to answer any questions committee members may have.

The Chair: — Thank you, Minister. I will now open the floor to questions. Ms. Sproule.

Ms. Sproule: — Thank you very much, Madam Chair, and thank you, Mr. Minister, officials. I think this is a fairly straightforward bill in terms of the changes that are being made. Just have a few questions to raise to get on the record today basically.

The first question I will have for these bills is whether or not you've done a jobs impact analysis. So for Bill No. 70, have you done a jobs impact analysis?

Hon. Mr. Doherty: — So thank you for the question, Ms. Sproule. I'm going to ask Joanne Brockman, executive director of economic forecasting, to come up and talk about how our modelling works and the inputs that go into our modelling. It's not just the provincial sales tax changes that go into the modelling when we're looking at tax changes. We're looking at the effect on GDP [gross domestic product] in the province and then how that is translated into potential loss of jobs or increase in jobs. I'll let Joanne explain how that works.

Ms. Brockman: — Okay. I'm Joanne Brockman. The economic impact analysis was based on the econometric model of the Saskatchewan economy and was measured relative to the base forecast, which is essentially prior to the measures in the '17-18 budget. The individual elements were modelled in isolation of each other in a *ceteris paribus* way which is sort of taking everything else unchanged. And we presented the results of that economic analysis on page 8 of the budget summary book.

And in total in 2017, the PST measures were forecast to have a point one one percentage point negative impact on the real GDP. The PIT [personal income tax] and CIT [corporate income tax] cut, a point zero two positive impact. The other revenue measures, a negative point zero two impact. The net operating spending change, a point one four percentage point positive impact. And the '17-18 infrastructure spending in the Saskatchewan Builds capital plan, a minus point three negative impact. The base case includes the Crown sector investment. So the overall impact is a combined point zero one positive impact.

The model that we use is a large-scale annual econometric model of the Saskatchewan economy consisting of 2,895 variables, over a thousand of which were endogenous — which means internally determined — and 1,310 are exogenous, or come into the model as assumptions. The structure's based on a Harvard Keynesian income expenditure approach consistent with the way Statistics Canada and the bureau of statistics measures economic activity.

In the short run, the model's properties are similar to those of Keynesian models. Over the long run, the model's properties are consistent with neoclassical theory of a steady-state equilibrium. The model's organized into seven major blocks, consisting of 2,000 interrelated equations: the demographic block and national accounts block, which is composed of consumption, investment in government residential and non-residential machinery and equipment; the export and farm block; the government block; the employment and income block; the price block; and the industry output block, which estimates the real value added to output by industry. It's demand driven. Final demand are translated into industry output which then determines employment and labour income by industry. Income in turn determines expenditure.

Once the budget measures were established, the entire model is re-run to produce a comprehensive, consistent economic forecast. So the economic forecast presented with the budget incorporates all of the various measures in the budget. In the final forecast, the individual impacts of any particular measures cannot be separated from the whole and may be swamped by other factors including commodity prices, exchange rates, interest rates, crop production, or oilfield and mining investment.

The economic forecast takes advantage of detailed sector-specific data and confidential forecasts from government ministries and agencies that's not available to any other forecasting agency and produces detail at a level of disaggregation unavailable from any other forecast.

The detail is then used as an input to the medium-term revenue forecast. The provincial economic forecast is an integral part of the budget process, and the economy affects fiscal performance, and budget polices affect the economy.

With respect to your specific question about the job impacts, we did not . . . We didn't run an impact analysis on jobs, component by component. So the employment forecast that's included in the budget forecast includes all of the measures in the budget in a comprehensive way, but I can't isolate the job impact from any specific component.

Hon. Mr. Doherty: — And that, the budget document, shows a net job increase forecast this year for, if memory serves, was it 800 jobs or . . .

Ms. Brockman: — I think it's 1,300, Minister. Let me just check that for certain. It is 1,200 jobs.

Hon. Mr. Doherty: — And that's on pages . . . for the member's benefit.

Ms. Brockman: — The jobs forecast for '17 are on page 33. The table at the top on page 33.

Ms. Sproule: — I just was wondering if you'd done a jobs impact analysis for this bill. So you have not.

Ms. Brockman: — Not specifically for this bill, no. We did the GDP impacts but then once we knew what all the budget measures were, we took them all together, re-ran the entire economic model, and what you see in the budget paper is what we get from the base case forecast and the budget.

Ms. Sproule: — One of the questions that we're hearing is a lot of concerns from restaurants in particular about the changes since now restaurant meals are subject to the 6 per cent PST. What sort of feedback are you getting from the restaurant community about the impact on their businesses?

Hon. Mr. Doherty: — It's just strictly anecdotal at this point in time, talking to some restaurateurs. I talked to one last night as a matter of fact. We had a cabinet function last night, and I talked to one of the restaurateurs who was catering that function with the Lieutenant Governor. And has there been impact? I think it's fair to say that there has been an impact.

[13:45]

Can you attribute it strictly to the levelling of a PST effective April 1st? I think it's too early to tell that. We do know that the restaurant association is canvassing their members, and is monitoring this. And they're going to be looking for quarterly updates from their members to see what sales look like.

I have received correspondence from the restaurant association, as has the Premier, I believe, and are setting up a meeting with them. I'm looking over to my chief of staff to see if a meeting has been established with them yet. Not as of yet, but we will be meeting with them.

And what they have indicated to us is they are monitoring sales in the province of Saskatchewan. So it would be April, May, June, for the first quarter after the implementation of the PST. So anything I would tell you here today would just simply be anecdotal that I've received so far, as I'm sure you're picking that up from your contacts as well.

Ms. Sproule: — I understand that CFIB, the Canadian Federation of Independent Business, conducted a post-budget survey from March 30th to April 10th. And what that showed was 79 per cent of respondents said their small businesses will be negatively impacted by the PST increases. How do you respond to that?

Hon. Mr. Doherty: — Well again, you know, I'm not going to dismiss any type of survey like that. What I think, you know, they're asking a prospective question there as opposed to in reaction to, or retroactive-type of analysis as to what's actually happened. So they're asking their members, do you feel this is going to impact your business, and the respondents are obviously saying overwhelmingly, yes, we feel it's going to impact our business.

So when we looked at, as Joanne just alluded to in the econometric modelling, when we looked at the overall picture of the impact to the GDP in the province, to the economic indicators in the province by the tax changes, both, and again I don't think you can take PST changes in isolation. Will they impact some businesses? I absolutely acknowledge that. I've acknowledged that, I think, since budget day including in my budget speech.

But I think what we need to do is take a longer-term view of this, with respect to, if you just take one fiscal year. When we have some of the personal income tax changes and the corporate income tax changes fully annualized, along with the PST changes, is what I am interested in seeing.

What I have said to those who I've met with — and I've met with a number of different organizations and industry associations, as have officials — I have said we want feedback. We want to know what the impact is happening in your sector, whether it's the restaurant association, or the construction industry, or the car dealers. You know, those areas that have received, that are now charging tax that had not been previously charging tax in this fashion. And I think of the cars; they've always charged tax in some form or fashion, but this is a different approach for them.

So when you ask me what's my reaction, I'm not surprised by those numbers. And you know, I take the CFIB and their members at face value. I think, again, but it's a prospective look as to what they anticipate is going to happen, and I'm interested to see what actually does happen.

Ms. Sproule: — All right. So you're saying, let's wait and see. But I know one of the things you talk about a lot is to strengthen the economy, and obviously their concerns is that this will not strengthen the economy. So I guess until we know for sure, we can't say one way or the other. But if they are right, it won't strengthen the economy.

So do you think . . . I guess I want to ask you, who do you think is right? I mean prospectively they're saying this will hurt them. You're saying it probably . . . or may not. You're not saying probably, but you say it might not. But it will have a negative impact on the economy if it does affect them negatively. So how can you say with confidence that this budget will help strengthen the economy, on this note?

Hon. Mr. Doherty: — What I can say is when we looked at analysis in other jurisdictions that have similar-type taxes or similar-type tax bases, particularly those that are harmonized, where restaurant meals had been taxed, we've looked at data from years past where the implementation of the tax occurred, and you will see a fall-off in sales. There's no question about that. And then you see a ramping up again of increased sales, and not only back to normal levels but exceeding previous years' levels in those jurisdictions that have those taxes in place.

So there's data to demonstrate that it has an impact on those industries initially. I've never said otherwise. I've acknowledged that to the restaurant association and to the car dealers and the construction. But then I think it normalizes and comes back when spending activity picks up.

Will it strengthen our economy? Here's what I know will not strengthen our economy, is massive deficits continuing in perpetuity into the future. And when you are faced with . . . And I just go back to looking at what we're trying to do here, is the shift from taxing income and productivity to a consumption-based tax revenue source for the province. With the instability and volatility associated with the revenues from the resource sector, I do know that if we don't solidify our revenue base and we continue to rely on the hope of oil being X dollars or the hope of potash being X dollars and it doesn't come to fruition, it puts in jeopardy our programs that our provincial government is responsible for in health care and education and those kinds of things.

So we are trying to make a major shift — and I acknowledge it is a major shift — from productivity taxes, income taxes to consumption-based taxes. It will take time to come to fruition with respect to a stable revenue source. I think it's far more detrimental for the economy if the provincial government continues to run massive deficits because of lack of revenue from these other sources. So that's what I've tried to explain.

I know we've chatted. You've asked me not to be long-winded in my answers, so I apologize. But I think this is an important question. I've used the analogy with some business people: I said that if you had a major customer that represented 10, 11, 12 per cent of your revenue base that all of a sudden left for whatever reason, what would you do in that year? What would you do in that business year with respect to that level of revenue leaving your organization? You know, they say, well we would obviously look for new customers, and we would perhaps have to raise our prices for our existing customers. And I said, well that's . . . We're looking for new ways to expand the tax base, so those are new customers. We've increased the price, if you will. We've increased the PST from 5 to 6 per cent. They said, well we would have to really take a look at our expenditure side of the ledger and reduce expenditures where we could, mindful of the fact that we can control that side. I said, well that's what we've done. We've tried to reduce expenditures in certain areas of the provincial government's budget.

So I think when you sit down and have that kind of conversation based on the fact that we've lost 10 to 12 per cent of our revenue base, they understand. So I am not dismissing the concerns of the CFIB or any of these different organizations, the restaurant association and others. I am interested to see how this plays out, and we have said quite clearly that we want feedback from them as this plays out.

Ms. Sproule: — Thank you, Mr. Minister. One of the thoughts when we . . . The changes that you have made from the PST, apparently people are giving the opinion that it could make it easier for Saskatchewan to proceed to full harmonization in the future. What is your plan regarding that?

Hon. Mr. Doherty: — Well it's a great question and it's one that we've talked about in cabinet and in caucus. There's no plan to harmonize in the immediate future. And I say this, and I've given a number of speeches in this area, and here's the reason why. People have said to me . . . I've had lots of folks come up and say, why didn't you just harmonize? Harmonizing moves the entire tax burden, shifts the entire tax burden to the consumer because of the input tax credits allocated to the business community, allocated to the businesses who pay provincial sales tax.

Now economists and business organizations will argue that that's the most efficient way of running your economy with respect to tax policy on the consumption side. I don't necessarily disagree with that. Here's the problem: you have to have a sufficient source of revenue to continue paying for the programs you have in place. When revenues were at 30, 35 per cent — we saw as recently as 2009 I think, they were at 35 per cent from the resource sector, the non-renewable resource sector — you have that level of revenue available to you that once you shift the entire tax burden to the consumer and businesses starting getting input tax credits, you have a solid enough revenue base that you can afford to do that. Then you become efficient and harmonized are in alignment with the goods and services tax.

I think that's probably good economic policy, and I'm sure officials would tell me that's probably, in the long run, good economic policy. We're simply not in a position yet from a revenue-based perspective to shift the entire tax burden to the consumer and still have available . . . Actually when we ran the models, it actually was at best revenue neutral and at worst revenue negative for us in the short term here because of our lack of revenues in other sources, unless you, you know, substantially increase personal income tax rate, corporate income tax rate, and our royalty rates in the other sectors that, you know, we talked about harming the economy.

So we ran those models. It doesn't pencil out right now. I'm not disputing the fact that it might make better economic policy over the long run to do such a thing for those of us that have a provincial sales tax, but just now was not the time.

Ms. Sproule: — So what percentage of the non-renewable resource revenues would you need? Like you said, 35 per cent in 2009. So it would've worked then. Is that the lowest level that you would need? Or do you have any sort of modelling that would tell you otherwise?

Hon. Mr. Doherty: — No, I don't have any, I don't have any modelling. I've not asked officials to do any modelling in that area. I'm just simply giving you what, you know, historically what some of our levels of . . . We're at 10 per cent this year for non-renewable resource revenues as part of our revenue base. So there's the quantum. It's from as high as 35 . . . I think we average, and I stand to be corrected from officials, I think we've averaged anywhere from 26 to 27 . . . 24 to 27 per cent in that area.

You might recall, Dr. MacKinnon said in his report on establishing a heritage fund or a futures fund or whatever you want to call it, a sovereign wealth fund, that when resource revenues, non-renewable resource revenues exceed 26 per cent of your revenue base is when you ought to take those dollars and put it into a fund. We're at 10 per cent this year.

So you know, even though those that say you should . . . And 35 was the anomaly with respect to 2009. I think it was 2009. Am I correct on that? I'm looking at Clare . . . [inaudible interjection] . . . 2009, yes. So that, you know, that was obviously a bit of an anomaly where potash, I think, went through the roof in that year, and there was substantive revenues afforded to the province that they used to pay down debt and reduce some taxes and what have you.

But I've not asked officials to run that model with respect to what would be the best, the most appropriate level of revenues to harmonize.

Ms. Sproule: — All right. So 10 is too low; that much is clear. Thirty-five would be in the range. But the bottom would, you're thinking, may be between when it's 24 to 27 per cent or . . .

Hon. Mr. Doherty: — I'm saying that's historically, I think, where non-renewable resource revenues have been part of the base. I'm not sitting here making policy on the go or nor am I . . . I mean, I've not had this discussion with the Premier or cabinet colleagues or caucus. I'm simply telling you what my view is as I'm fielding questions from people that, whether it's economists or economics professors or accountants and others that said, you know, you ought to think about this. What I'm saying is, I'm prepared to have that discussion as the Finance minister, not as a government. I'm not making policy here. But I've heard that over and over and over again. I think that it's a worthy debate.

Ms. Sproule: — Thank you. Is there any plan to reduce the PST back to 5 per cent if and when the province's finances improve?

Hon. Mr. Doherty: — Well what this Premier has said is that . . . I mean, we have a history of reducing taxes in our government. So what this Premier has said is, if and when we get back to balance — and our plan is to get back to balance within three years; there's a number of factors at play — we want to pay down operating debt. We've accumulated some additional operating debt here in the last couple of years. We want to pay down operating debt and try to get that credit card debt as low as possible, if not eradicated.

The Premier did promise during the campaign, this most recent, well a year ago now, campaign that if and when oil hits $75 a barrel again, anything above $75 would be used to pay down operating debt and then to start to build a heritage fund.

So is there any plan right now that we've talked about in reducing PST? No. But what I can tell you is that me, personally, as the Finance minister, it's always been my objective to try to have taxes as low as possible. I know I share that view with a number of my colleagues in the caucus. But our plan right now is focused on this tax base, getting back to balance in three years time. And if we're fortuitous enough to have revenue show up unexpectedly because of a spike in resource commodity prices or what have you, we'll make those judgments as we go along. What my goal is, is to ensure that we have a stable revenue base going into the future such that we aren't at the whim of the volatility associated with resource revenues.

Ms. Sproule: — Thank you. Less than half of the CFIB's respondents said that the reduction to the general corporate income tax will have a positive impact on their businesses. Does it surprise you that that's as low as it?

Hon. Mr. Doherty: — Well I think CFIB, they represent independent businesses. A lot of them are small businesses who probably pay the small business tax rate up to about 500,000, well it is $500,000 in taxable income. So they pay a 2 per cent rate on that. It's the lowest in the country save for Manitoba that doesn't have a small business tax. But Manitoba has some other charges that we don't have here in the province of Saskatchewan, including a payroll tax. So does it surprise me? Well a corporate income tax reduction would not affect them if they're in the small business threshold, under the small business threshold so . . . but they pay the lowest small business tax in the country, again, save for Manitoba.

Ms. Sproule: — All right. Jack Mintz said in a Postmedia editorial that tax reform would have had a bigger impact on growth by pursuing a level playing field for business, such as removing excessive incentives for manufacturing. Is that something you agree with?

Hon. Mr. Doherty: — Well I learned a long time ago I ought not to argue tax policy with Dr. Mintz. But here's what I would say — and I think if we look back historically in the province — when you're a landlocked province that has to get product to its markets either through rail or truck to ports, or rail or truck to the South, you have to provide . . . and you're an agriculture-based province. We have some natural resources here that other jurisdictions don't enjoy and so we take full advantage of those from a commerce perspective.

We have to ensure that we are competitive in as many areas as we can to attract investment. We don't have hydro here in the province. I think when we did our estimates a few weeks ago, Ms. Sproule, you and I talked about this. We lost an M & P [manufacturing and processing], a processing organization to the province of Manitoba because of hydro rates versus our SaskPower rates. We can't compete with them unless we provide taxpayer subsidy on power rates, and we don't want to go down that path.

[14:00]

So what do we have to do to incent capital to come to this province? To diversify our economy, to get away from strictly agriculture or mining or oil extraction, we want to develop a manufacturing and processing sector here in the province. To attract that kind of investment into the province you need several different kinds of things. You need probably a good tax policy that's more competitive — if not as competitive — as other jurisdictions. A skilled labour force. You need a transportation system to get their products in and out of the province, both for their inputs and their outputs. And you need a regulatory regime that provides certainty and is not as burdensome as perhaps some other jurisdictions.

I think we do pretty well on all of those fronts, certainly on the skilled labour front. We have, I think, the best work ethic in Canada. I would argue that with anybody. And we are developing better and better skills through our young people coming up through the high school system, whether it's into the trades or into our university sectors, our post-secondary sectors. We are trying to be less burdensome from a regulatory perspective, but not taking our eye off the ball on where we have responsibilities from a regulatory perspective. And then from a tax perspective is where we really think we are very competitive, and as we move down the chain with respect to our reductions in the M & P tax system, I think that's what attracts capital here. And then we have to ensure we keep that capital here.

So you know, I think it's . . . If all things were equal, Dr. Mintz probably has a pretty good point. All things aren't equal. And so we don't have a port we can just truck it over to and stick it on a ship and send it over to China or wherever. We have to get it to port, and so we have to ensure that we reduce their costs as much as possible to get that product out of here to be competitive.

Ms. Sproule: — Thank you. I know that there are quite a few retailers and restaurateurs who are . . . well, particularly retailers, who are now starting to understand that they no longer are paid a commission for collecting the PST on behalf of the government. I think we talked about it a little bit in Finance committee for estimates. But I'm just wondering, have you made any thoughts, considerations about maybe restoring that commission for them to do the government's work, or is that . . . We talked about it in estimates, but has there been any reconsideration of that?

Hon. Mr. Doherty: — The short answer is no. And I have, we're getting some letters and as they're collecting the PST now and submitting . . . or the check box is gone, I guess, the way it works . . . Brent or Arun . . . [inaudible].

Mr. Hebert: — Yes.

Hon. Mr. Doherty: — For them to receive their commissions. It's about $9 million in total. It was part of the budget. We announced it on budget . . . I understand people running their businesses probably didn't hear it or paid that much attention to it. Here's what I would say. I'm not trying to minimize this. It's $9 million. But 80 per cent of the businesses that collect PST for us receive a commission of $280 or less annually. It works out to about . . . The average is $166 per business or $14 per month is their commission.

So you know, for that organization that had received, you know, looking forward to that 280 bucks or whatever the case may be and it's not there now, I understand their concern. Harmonized jurisdictions do not pay commissions. The provinces that are harmonized, the GST [goods and services tax], there is no commission being paid for the collection of GST. And in the harmonized provinces they don't pay commissions as well.

Mr. Hebert: — No.

Hon. Mr. Doherty: — So you know, we're moving into alignment with those jurisdictions. It is a cost-saving measure for the government to help us reduce the deficit.

Ms. Sproule: — Thank you. I just note, you often refer to other jurisdictions. And I just find sometimes that's not always a solid base. Because we talked about other jurisdictions, for example, in our debate this afternoon or earlier today, who have introduced laws restricting corporate donations. So sometimes that works one way, and obviously it works the other way sometimes.

Hon. Mr. Doherty: — No, but I just think for the record I want to point out . . . I'm not saying that's the basis for why we made this decision. I want to point out that other jurisdictions who are harmonized do not pay commission. So it's not like we're the only province in Canada not paying commissions. I want to make sure the record's clear on that. I wasn't trying to justify our decision based on other jurisdictions.

Ms. Sproule: — Maybe we can go back. You also talked about other jurisdictions in your opening comments when you were talking about children's clothing, for example, now being charged the PST. So was that a determining factor on that particular choice?

Hon. Mr. Doherty: — No. The children's clothing one, twofold. One is that it represents about $15.6 million in this fiscal year growing to, we think, forecasted about 16.8 million in the ensuing three years of our budget plan.

Children's clothing was not an easy decision. And you know, you and I had that discussion in the House about diapers. And I accept full responsibility for my ministry sending out in error the bulletin indicating that diapers were going to be taxed. It was never our intention to tax diapers. So I accept responsibility for that error.

On children's clothing there was, I think it's fair to say, there was some leakage on that particular application of tax. I'm not suggesting that people are dishonest or lying. In some cases people didn't even know that they were paying, not paying PST on children's clothing. And there was some situations where people were buying clothing indicating it's for their children even though it's in sizes that you don't typically associate with children and not having to pay PST. So there was some leakage there. I'm not suggesting widespread, but there was some.

And then secondly, the reality was when we looked at the list of exemptions, we just felt that it was an exemption that we could afford to remove at this point in time.

Ms. Sproule: — I think another area where we're hearing a lot of concerns is in the decision to place PST on insurance premiums. I know for farmers with crop insurance, for example, that's an additional cost that they certainly hadn't anticipated as they were planning for this year. And I think it's impacting other . . . We're getting letters, and I know you would be too, from all the people that are impacted by the addition of PST to insurance. Any thoughts you want to share on that at this point in time?

Hon. Mr. Doherty: — Yes. Again, we've had some representations from some agricultural groups. We'll have some more. I know the Minister of Agriculture has had some representations. We've certainly received some letters and emails and contact from people. Anytime you add an additional cost to the cost of doing business, you're going to . . . People are not going to be happy about it. I've yet to find anybody go, oh, I'm good with it, an additional 6 per cent cost on doing business.

The reality is when we looked at what was available for sources of revenue in a fair and equitable manner, when you look at insurance, it's where do you draw the line? Do you exempt this particular type of insurance but you tax this type of insurance? And so we looked at it from a fairness and, you know, an equity perspective across the piece. Are farmers upset about it? Yes, farmers are upset about it. I know some of my colleagues certainly heard from some of their constituents, who relayed that back to me. Again, it is a source of revenue for the province that will provide some stability.

Now if you're incorporated in a farm, you're going to see a reduction. If you're not incorporated you're going to see a reduction in your personal income tax. As we move along with this shift to consumption taxes, it is a discretionary item — and I say that in the sense that it is a necessary discretionary item for insuring your livelihood. I fully acknowledge that. But it is an additional cost to people, whether it's an individual life insurance policy or crop insurance, right across the piece — insuring your car, insuring your home. We tried to make that, from a fairness perspective, right across the piece. So are there people upset about it? I fully acknowledge that. I understand that.

Ms. Sproule: — When you talk about making these decisions in a fair and equitable manner, do you have any tools that you use or analysis mechanisms? How do you decide what is fair?

Hon. Mr. Doherty: — Well I suppose that's in the eye of the beholder in the sense that, you know, if you're a restaurateur and you were not being taxed on your meals in the past and now you're being taxed, you don't think that that's fair. Someone who's had to pay PST and other different things with respect to their business or their livelihood and thinking that, you know, a restaurant meal is a . . . It's not a necessity. It's nice to have, and God bless the restaurateurs in this province. They do a great job. You can have that kind of debate as to what's fair.

So as Joanne pointed out I think to your initial question, when we ran the modelling based on all the different inputs and we looked at, if we remove this exemption, remove this exemption . . . And Arun's shop did a tremendous job in taking a look at all different inputs and outputs with respect to what is taxed, what's not taxed, what's exempt, what would harm the economy, what would not harm the economy . . . In the sense of, if you put all these things together and ran the model, what does it look like with respect to our economy and our GDP? That's where we tried to arrive at, was to provide a stable source of revenue.

And I can't emphasize that enough, is that if in fact the forecasters are correct . . . And we're seeing this already with our budget on the price of oil. I think we're down eight or nine bucks from what our forecast is in the budget. Now this is on the first month, after the first month of a 12-month forecast. But you know, we took the average of what forecasters said on the price of oil, and they're off eight, nine, ten bucks already on the average. You don't take the high and you don't take the low, because you're making public policy decisions based on the revenue afforded to you, based on the high or the low if that's what you go with.

So I think it's fair to say . . . And the Chair is a member of treasury board. And I'm looking around to see other members of treasury board here, but the Chair is a member of treasury board. And I think it's fair to say that the amount of time that we debate and discuss and go through analysis, provided by both the Ministry of the Economy and Ministry of Finance, in trying to determine what it is we need to achieve with respect to the sources of revenue to pay the programs that we have to pay for, that's where you really struggle with this, is what are the necessary programs we need to fund through the provincial government? What source of revenues do we need to provide that sources of revenue to pay for those programs? What's the deficit look like? What do our borrowing costs look like? I mean, there are . . . It is a very complex machine, government.

And certainly the budget of the government is very, very complex, with a lot of moving parts in it — everything from what our Crowns are going to do and what they can provide to taxation policies.

So I think, you know, did we get it right? No, well obviously we didn't get it right on libraries. We certainly heard about it on that, and we backed up on that. And I think rightfully so. But at some point in time, you've got to make some decisions to have the revenue source available to you to pay for the programs that people demand and expect and deserve. And that's where you try to find the balance here, and to ensure that you're providing those kinds of programs that the provincial government ought to provide.

Ms. Sproule: — Yes I think on the global level, as you described, you're modelling and you're looking for a stable economy. And you do what you can by punching all these different permutations in. Obviously there's an infinite number of permutations. You could raise PST to 7 per cent. You could drop it to 3 per cent. You could go from, you know, away from consumption tax. I mean, there's millions of discussions on that, so I think the variables are infinite.

But in terms of deciding what's fair, you know, is there, other than just a gut feeling like . . . When you tell me that that's a fair and equitable matter, like you said, it's in the eye of the beholder. So obviously you're the beholder that has the say and the power here, whereas individual industries are all saying that's not fair. And that's what people do when they're asked to pay more.

So but I'm just wondering, in your analysis as a ministry, is there any sort of tools that you used? Like, is there a fairness adviser? Some other ministers have indicated using fairness advisers, for example, when they sell the Grain Car Corporation. Do you have any sort of testing, or is it just seeing how the model plays out and then saying, okay, this is what we're going with?

Hon. Mr. Doherty: — No, no. And I think . . . You know, I want to be clear. It's not the Minister of Finance that write . . . well, delivers the budget and is the holder of the pen, if you will, for the budget. Our fairness advisers are our caucus, and we take this information before our caucus. I mean, treasury board gets it to a point where we say, here's options for caucus and cabinet to consider. And we take it to a caucus and say, here's what treasury board is recommending; what say you? And caucus members weigh in. And they can agree, disagree, or say that's crazy, or no we're not following that — as I'm sure your colleagues, your former colleagues did when they were government.

And so that's, you know . . . So what you're going to have there is because the confidentiality around any particular budget is sacrosanct in the sense that you never want to give somebody an unfair advantage of having information available to them that they might benefit from, or someone could benefit from or be aware of, you know, if people are going to lose jobs, that they are dealt with appropriately with respect to the process that human beings should go through if that type of situation occurs.

So we take as much information as we have developed from treasury board. And it is a long and complex process that starts back in, literally in usually June or July is when the call for estimates goes out. And then we work through the fall and into the early new year, and caucus weighs in, and then cabinet finalizes things. And so it's . . . You know, I've always said the Finance minister gets too much credit when things are good and too much blame when things aren't so good. And that's fair. That's fine. That's why we fight for these jobs.

But I think, you know, and I'm not trying to be flippant at all, Ms. Sproule. We take all this information through the Ministry of Finance to the caucus, and they weigh in to say, we agree with . . . And we don't take votes or anything like that. We just do it by consensus, because if, you know . . . We read the room, and if the room is going, you're not doing that, that's crazy, that'll never fly in my constituency, well then you know you're probably off base.

Ms. Sproule: — I want to know what they asked you, and that you said no to.

A Member: — There's a few.

Hon. Mr. Doherty: — So you know, that's kind of how the process . . . I'm not trying to . . . I'm minimizing with respect to the amount of interactions that go on between the treasury board and caucus colleagues, but that's kind of our fairness advisory board, if you will.

Ms. Sproule: — Thank you for that. On May 4th, just last week, the Saskatchewan construction industry said that the PST changes have left companies scrambling and that it's a mess for the industry, which no one is happy about.

Hon. Mr. Doherty: — I'm sorry. Who said that on May 4th?

Ms. Sproule: — The Saskatchewan construction industry.

Hon. Mr. Doherty: — And said that through a news release, or how'd they say that?

[14:15]

Ms. Sproule: — I believe so, yes. I'm just getting some advice here from colleagues. Anyways, is there not a way that these changes could have been made more efficiently? Or maybe not putting them in . . . giving them more time to put them into effect?

Hon. Mr. Doherty: — Well I hadn't seen that report, so I'd be interested if you have a copy of that release or where that emanated from, because they've not said that to me directly. So I would be interested to know where that quote came from.

But here's what I say about the construction industry, and is there some disruption there? I acknowledge there's some disruption there. We have had dozens of meetings with the construction association, various sectors of the construction industry. I can ask officials to relate how many different meetings and emails and phone calls we have responded to.

We brought down the changes on March 22nd and brought them into effect on April 1st. So that's, if math serves me correctly, what? Eight, nine, ten days or so. I think there's 31 days in March, if I'm correct, so eight or nine days anyway.

You know, I looked back when the last major change was done to the PST base, and it was done in 2000-2001 budget by a previous NDP government. So I was interested to say, okay . . . I asked my staff to look some of this up, because I said, you know, we're not the only government to ever change the PST base, nor increase the PST, nor reduce corporate income taxes, nor reduce personal income taxes. I'm a bit of a history buff anyway, so we went back and had a look at some of these things.

And I note . . . and I'm not being political here. I'm just saying that in 2000-2001 when a former NDP government brought down their budget, the last major PST base expansion, where they . . . They expanded the base to — I think this is important for the record — computer services; real estate fees; non-prescription drugs; maintenance contracts; bedding plants, trees and shrubs; pet food; dry cleaning; veterinary fees; security and investigative services; credit bureau and collection services; and telephone answering services. They brought down their budget on March 29th. Those were effective March 30th, at midnight that night.

They further expanded the PST base to include professional services, building services, advertising services, employment services, effective July 1 of that year. So they gave, you know, a three-month window there to prepare for the expansion of those services on to the PST base.

But, you know, relatively speaking, we gave eight or nine days to work with the industry, and have said over and over again, and I've said this directly to them, that we're not going to be extremely onerous on this, that we want to work with them as we go through these transition rules, and as we develop the regulations and, you know, implement the regulations.

But is there some disruption in that business? Because any time you have a cut-off date, well this was just before the cut-off date, and this, you know, it impacted the post cut-off date. At some point in time you have to set the date, and that was the date that the government chose to establish the changes in the PST in this budget. Other governments have said, you know what? It's effective midnight that night. And I would argue that the computer systems in 2000, 2001, and point-of-sale systems were nowhere near as sophisticated as they are today to make those adjustments that they had a few hours to make when they expanded the PST base back in those days, versus we gave eight or nine or ten days to change.

So, you know, if there are concerns still with the construction industry, officials are available to meet with them. I'm still available to meet with them. We will work through these transition rules and ensure that they are dealt with as efficiently as possible.

Ms. Sproule: — Okay, I'll just read from the post. This is actually from the Saskatchewan Construction Association page, their web page, and it's a news bulletin, I guess, on the 4th. And it says:

> The new PST on construction services has been in place for 34 days now. The government is still trying to sort out how and when the tax applies, and companies are scrambling to sort out contractual and financial obligation.

It's a mess for our industry, and no one is happy about it.

And then they go on to have a long discussion about it. This is from the president and CEO [chief executive officer] of the Saskatchewan Construction Association. So that's the reference that I was referring to.

Just carrying on on that topic then, if I understand correctly, you are going to impose a 10 per cent change order limit on construction projects contracted pre-April 1st. I know that they have asked your Premier in a letter to scrap that 10 per cent rule and instead impose a three-year window for projects under the old rule. Is that going to happen?

Hon. Mr. Doherty: — I don't know the answer to that yet. I've had a conversation with an industry representative as recently as this week. We are in discussions with them and I'll report back to the committee when we determine exactly how that's going. There is a bit of a difference of opinion on this and there is . . . I mean, we have to be careful when applying taxation policy that we don't provide, inadvertently, loopholes that could be taken advantage of, if you will, unnecessarily.

So we want to ensure that it's a fair, level playing field for everybody in the industry. I've yet to have some further conversations with officials. I literally talked to the individual yesterday, I think it was, if not two days ago. I can't remember, but it was sometime this week when it was brought to my attention of their concerns about this. I know there was a letter sent to the Premier. I saw a copy of that this week as well. And so we are discussing that and working through it. And what I assured that individual, and I would assure the construction industry, is that we will sit down and work through this.

Ms. Sproule: — Thank you. Just some other impacts about the PST in construction. Stakeholders are saying it's becoming the first jurisdiction in Western Canada to fully tax construction services. It's bad for the industry and bad for the economy.

The president has also said that nine days to implement was far too short a timeline, and other quotes, ". . . members are not struggling for a lack of trying, they are hamstrung because the rules themselves are unclear and, in may cases, not even determined yet." Recent statistics suggest this is the wrong time to implement the PST on construction. GDP numbers released last week showed that engineering construction is 31 per cent down for the second consecutive year, residential construction is down 7.3 per cent this year following a 14 per cent decline in 2015, and the number of housing starts has fallen to its lowest level since 2009.

Construction employment continues to be well below last year's levels — this is in the April labour market report for Saskatchewan. Counting heavy construction and both the residential and non-residential building sectors, construction employment in April numbers 45,800, which is 8.4 per cent lower than 50,000 a year ago.

Also year-to-date figures for the first four months in construction show a 7 per cent decline in employment. Compared with April a year ago, employment is down 10 per cent in heavy and engineering construction; only up 1 per cent in residential and non-residential building construction; and employment is down 13 per cent in trade-contracting firms. So the drop in employment is spread out: self-employed down 5 per cent; paid workers down 10 per cent; and average hours has also fallen by more than 10 per cent to an average of 32.4 hours per week. So even those with a job are not putting in as many hours.

With that background, how would this PST change not have a really negative impact on the construction industry?

Hon. Mr. Doherty: — Sorry, what were you quoting from again, Ms. Sproule. I'm sorry.

Ms. Sproule: — This is some other information that my staff has put together for me, so I would have to get them to . . . Well, one is the April labour market report for Saskatchewan from the *Sask Trends Monitor* for Saskatchewan Construction Association.

The Chair: — Minister, Ms. Sproule is willing to table the two documents from which she has taken her information from, if you would like.

Hon. Mr. Doherty: — Sure, yes. Appreciate that. I'm not disputing those numbers. We look forward to having those numbers. I've asked officials; they don't have those, that specific document.

But what we have as far as our economic indicators are concerned . . . And this comes from Stats Canada. And they were updated, I'm told, yesterday . . . So these are as of May 9th, 2017. These are the Stats Canada data. So this is year over year, year-to-date change over year to date last year. And this is calendar year.

Employment's up point three per cent. Unemployment rate is 6.8 per cent, fourth lowest in the country, a year-to-date basis. Consumer price index, 1.2 per cent; average weekly earnings, up 2 per cent; retail sales, up, I believe this is $3 billion year to date; wholesale trade, up 10.5 billion; new motor vehicle sales, up 9.5 per cent year to date; manufacturing sales, up 16.4 billion; international exports, up 12.1; building permits, up 34.9 per cent year to date over last year, year to date; and housing starts, number of units, up 7.9 per cent. Investment in new housing construction is down year to date, and investment in non-residential building construction is down year to date. I will acknowledge that.

So what I'm saying is the same thing I've said to the restaurateurs and car dealers and others. We want to monitor the impact that this tax may have on construction activity. I think that there are many other factors at play when you're talking about economic activity in that particular sector that . . . I think you quoted a number of different things over the last two years. I think I heard a couple of different times referencing over the last couple of years employment levels and what have you.

So we need to ensure that we aren't talking about a brand new tax on the entirety of the construction industry because they always had a 5 per cent tax on their materials. And now they're being taxed on the labour component of construction. There's no tax on the purchase of land. So any development on land, you're not being taxed on the land. It is on the new building materials or on the contracts, I should say, with respect to the entirety of building a new house or a new commercial development or any contracting work.

The other aspect to this is that we haven't had the corporate income tax changes come into effect yet. They come into effect on July 1st of this year. That will reduce corporate income taxes owing by a half a point and when fully implemented, by a full point by July of 2019. Similarly with personal income tax reductions. So those . . . The PST happened immediately. The other tax changes don't happen until July, and we'll see what kind of economic impact that has in any of the sectors in the economy.

And now contractors are on a level playing field with Alberta because they can buy their materials tax free. It frees up cash flow. When they bid on jobs, whether it's in Saskatchewan against Alberta contractors, or into jobs in Alberta against Alberta contractors, they're on a level playing field with respect to the applicability of tax on their materials.

Ms. Sproule: — Thank you. The numbers I was citing are specific to construction. I understand. And the ones you just . . . These were from May 1st, but once copies are available I can share that with the committee.

I've had discussions, well it's actually one of my constituents. He has — I think we talked about him last time too — he runs a furnace instalment company. Anyways, he was very concerned about the triggering of an underground economy because of these changes to the PST. So I'm wondering if you have any analysis in terms of what you expect will happen to the underground economy where people just pay cash and go under the table? Do you have any ways to enforce the law in that sense? Will you be hiring additional inspectors and tax collectors to make sure that this underground economy is not burgeoning?

Hon. Mr. Doherty: — I'll let Mr. Hebert answer this question.

Mr. Hebert: — Brent Hebert, Ministry of Finance. So we have added some audit resources in respect of the base changes to the construction sector. We've also made some changes to the — and you'll see in the bill — some changes to section 29 and a few other areas in response to the notion that we've expanded our base out into an area where there is prevalence of the underground economy.

So we've identified that and we'll use those tools that we've placed in the bill to help mitigate the underground economy and the prevalence of it, and the prevalence of these transactions that at times can be in this space in terms of the construction sector.

Ms. Sproule: — Sorry, could you repeat what section you were referring to?

Mr. Hebert: — Section 29.

Ms. Sproule: — Of the new bill?

Mr. Hebert: — Yes. Section 29 of the Act.

[14:30]

Ms. Sproule: — Oh, the Act. There's only 14 sections in the new bill.

Mr. Hebert: — Sorry.

Ms. Sproule: — Okay, section 29 of the Act. And I'm sorry, how are you anticipating that this will prevent the underground economy from growing?

Mr. Hebert: — So we expand the contractor clearance process to both resident and non-resident contractors. So through this process it's the responsibility of the principals or the general contractors that are engaging subcontractors to ensure there's a holdback, to make sure that the PST is properly paid and accounted for by those contractors.

At the end of the project the contractors are required to obtain a clearance certificate from Finance provided to the principal or the general contractor to ensure that PST has been properly paid. Once we issue that clearance, the clearance is given to the principal and then they'll release the holdback for PST purposes.

Ms. Sproule: — Thank you. And did you say you're hiring additional FTEs [full-time equivalent] to do this enforcement?

Mr. Hebert: — Yes, we're going to be hiring six additional auditors to help enforce or help address the compliance issues in this area.

Ms. Sproule: — Thank you. This is another monitoring question, but how do you plan on monitoring the PST self-assessment expected from non-residents who are importing permanently mounted equipment into Saskatchewan for resource exploration?

Mr. Hebert: — So we have six investigators that work for our division who are in the field. They attend site visits at all large contract projects, oil and gas mining projects. They take account of the non-resident contractors that are providing services at those sites and will ensure, through those visits, that the non-resident contractors engaged in oil and gas and mining are properly licensed and accounting for tax.

Ms. Sproule: — And now six investigators for an entire province, how many sites would they investigate on average per year?

Mr. Hebert: — So we monitor about, each of them will monitor about 500 sites each, but those are varying in size. Anything over $20 million in investment, we will absolutely monitor and they will visit in person. But it would be about 500, 500 sites or sitings a year for each investigator. So they do focus their activities in key areas of the province — Southwest and Southeast province, and along the Alberta border — where that activity is high. And they do that for the full year, and they're out in the field. So they do do a good job of coverage, and we get a lot of leads through that process from a compliance perspective.

Ms. Sproule: — So for sure they're checking sites that are over

20 million, but for a $19 million site, it could be that an inspector might never show up there during the year.

Mr. Hebert: — I wouldn't say that they'll look at anything under 20 million. I would say we certainly have a focus on that because of the size of investment. They will attend sites that are much less than that, smaller projects, especially if they're attending or driving to a specific site and see other activity. It certainly is based on risk. And where we understand or know that there is a large activity of non-resident contractors on any project, we'll ensure that we attend it to ensure that they are properly complying.

Ms. Sproule: — But there is a chance that a $19 million construction site might not be inspected?

Mr. Hebert: — I guess there's a chance, yes.

Ms. Sproule: — What is the cost of the six new FTEs for monitoring construction compliance?

Mr. Hebert: — The cost of the six new FTEs is $640,000.

Ms. Sproule: — Thank you. Madam Chair, that's the extent of my questions on this bill.

The Chair: — Thank you. Before moving on to vote off this bill, I would like to note that the document provided is numbered CCA 42-28, the Saskatchewan Construction Association, *April Labour Market Report for Saskatchewan*, a news release dated May 4th, 2017, which has been tabled at this committee.

All right, seeing no further questions, we will begin to vote off this bill, beginning with clause 1, short title, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

[Clause 1 agreed to.]

[Clauses 2 to 14 inclusive agreed to.]

The Chair: — Her Majesty, by and with the advice and consent of the Legislative Assembly of Saskatchewan, enacts as follows: *The Provincial Sales Tax Amendment Act, 2017*.

I would ask a member to move that we report Bill No. 70, *The Provincial Sales Tax Amendment Act, 2017* without amendment.

Mr. Dennis: — I so move.

The Chair: — Mr. Dennis so moves. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. We will now move on to 69, Bill 69.

Hon. Mr. Doherty: — Bill 68.

The Chair: — You would like to jump to 68. Okay, I'll work with you.

Bill No. 68 — *The Fuel Tax Amendment Act, 2017*

Clause 1

The Chair: — All right, we will begin with next, Bill No. 68, *The Fuel Tax Amendment Act, 2017*, clause 1, short title. Minister Doherty, if you have any comments to make on this bill?

Hon. Mr. Doherty: — Thank you, Madam Chair, and again thank you to my colleague from the opposition and colleagues from the government side of the committee. I have the same officials here, so I don't think I'll go through introductions again.

The amendments to *The Fuel Tax Act, 2000* implement the fuel tax changes as announced in our government's 2017-18 budget and is one of the measures taken to help address the current fiscal challenges of the province.

This legislation reduces the fuel tax exemption on bulk purchases of farm-use diesel from 15 cents to 12 cent a litre, effective April 1, 2017. These changes acknowledge that a portion of marked diesel is used on road in licensed vehicles either for on-road primary production activities, personal use, or to take product to market. Partial taxation of diesel recognizes that this on-road usage should be subject to tax. This restores tax equity with all other Saskatchewan residents and businesses that must pay fuel tax for personal use and to transport products.

Specific amendments to *The Fuel Tax Act, 2000* are required to implement this change. Section 6 is amended to allow farmers and primary producers to purchase tax-reduced, marked diesel fuel for use in eligible farming or primary production activities.

Section 6.1 is added to require fuel sellers to collect tax on marked diesel at 20 per cent of the full tax rate on sales to exempt permit holders. Section 12.1 is added to allow marked diesel fuel used for heating to be sold tax exempt.

And section 17 is amended requiring farmers and primary producers to report importations of marked diesel and pay the applicable fuel tax.

Madam Chair, thank you for the opportunity to make these brief comments, and we'd be pleased to answer questions from committee members.

The Chair: — Thank you, Minister. I'll open the floor to questions from committee members. Ms. Sproule.

Ms. Sproule: — Thank you, Madam Chair. Thank you, Mr. Minister. I know we have had a fair review of this already in Finance committee when we met earlier in terms of some of the rationales for why these changes have been made.

One thing we didn't talk about was the choices around exempting marked diesel fuel for heating use. And I was just wondering if you wanted to share with the committee how that exemption continues to hold? And I think it's being expanded as well. So what sort of policy analysis was done in that context?

Hon. Mr. Doherty: — Maybe I misheard wrong, Ms. Sproule, but you said that we expanded it. Is that what you said?

Ms. Sproule: — Well, I thought that for heating purposes, there's some new additions where it's a further exemption.

Hon. Mr. Doherty: — No, I think . . .

Ms. Sproule: — No. It's the other way around?

Hon. Mr. Doherty: — Well, I'll let Mr. Hebert explain.

Ms. Sproule: — Okay.

Mr. Hebert: — No, we had to separate . . . For the purposes of the Act, we had to separate the pieces between marked diesel used for heating and marked diesel used for farming purposes, because in the Act, prior to the changes they were identified as one. And so in order to tax part of the marked diesel for farming purposes and exempt the full tax on the diesel side, the heating side, we had to separate them.

So we didn't expand it. We just had to separate those products in the Act so that the tax application was different or differentiated between the two.

Ms. Sproule: — Okay. I understand now, so I get what you're saying. So then my question would be: why did you leave the full exemption on the marked diesel fuel for heating? You didn't change it. You left it the same. So why would you do that for heating and not for farm use?

Hon. Mr. Doherty: — Well as I said in my remarks, we think that there's some on-road farm use for transporting product or use of diesel fuel in farm vehicles that would not be pertaining to the actual operations of farming. On home heating, we view it as a basic necessity, an essential service like electricity or if you're heating your home with electricity or natural gas. So that exemption still holds in place.

Ms. Sproule: — So I just want to make sure, are there similar exemptions for heating homes with natural gas or with electricity? Yes?

Hon. Mr. Doherty: — Correct.

Ms. Sproule: — Okay, so it's just keeping a level playing field as far as that goes.

Now when you determined that there is some on-road usage for diesel fuel, how did you come up with the figure that you came up with?

Mr. Hebert: — So when we did our analysis in terms of on-road use, we utilized the 2017 *Crop Planning Guide* that's published by the Ministry of Agriculture. In that guide, they do significant analysis and assessment on the consumption of fuel and how it's used in the different activities in a farming operation. Using that analysis, we determined that 20 per cent, approximately 20 per cent of the fuel used in farming operations, on average, are used for on-road use. So we utilized their data and analysis to come up with our exemption of 20 per cent.

Ms. Sproule: — All right. I have no further questions on this bill, Madam Chair.

The Chair: — Thank you. We will move to vote off Bill 68. Clause 1, short title, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

[Clause 1 agreed to.]

[Clauses 2 to 8 inclusive agreed to.]

The Chair: — Her Majesty, by and with the advice and consent of the Legislative Assembly of Saskatchewan enacts as follows: *The Fuel Tax Amendment Act, 2017*.

I would ask a member to move that we report Bill No. 68, *The Fuel Tax Amendment Act, 2017* without amendment. Mr. Fiaz has moved it. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

Bill No. 69 — *The Income Tax Amendment Act, 2017*

Clause 1

The Chair: — All right. Moving on to Bill No. 69, *The Income Tax Amendment Act, 2017*, clause 1, short title. Minister Doherty, if you would like to begin with any opening comments.

[14:45]

Hon. Mr. Doherty: — Again thank you, Madam Chair, and colleagues on the committee. I am pleased to be able to speak to the amendments to *The Income Tax Act, 2000*, which implement the income tax initiatives announced in our government's 2017-18 budget. These initiatives support Saskatchewan's growth agenda by reducing personal and corporate income tax rates.

This legislation reduces taxes for every Saskatchewan income tax payer at every level of income by reducing Saskatchewan's three personal income tax rates by a half point effective July 1, 2017, and by another half point effective July 1, 2019. These reductions will help foster greater productivity and investment within the provincial economy.

And for those Saskatchewan residents who already do not pay income tax, this legislation enhances the Saskatchewan low-income tax credit. This initiative will ensure that the impact of provincial sales tax changes, introduced in separate legislation, is mitigated for lower income residents.

This legislation also makes Saskatchewan's business taxes more competitive with our neighbouring provinces by reducing the Saskatchewan general corporation income tax rate by a half point effective July 1, 2017, and by another half point effective July 1st, 2019. When fully implemented, Saskatchewan's general corporate tax rate will have declined from 12 per cent to 11 per cent, the lowest rate in Canada.

In addition, the manufacturing and processing, M & P, profits tax reduction, which reduces the general corporate income tax rate by up to two percentage points for eligible M & P income, is being maintained. This means that Saskatchewan's effective corporate income tax rate on eligible M & P income can be as low as 9 per cent, the lowest tax rate on manufacturing and processing in the country.

In conjunction with the changes to the personal and corporate income tax rates, this legislation reduces the dividend tax credit rate for eligible dividends, lowering the effective dividend tax credit rate for eligible dividends from the current 11 per cent to 10 per cent by 2020, thereby maintaining the current degree of integration between the provincial corporate and personal income tax systems.

This legislation also eliminates the education and tuition tax credits, temporarily suspends the annual indexation of the personal income tax system, and phases out the special tax reduction which allows credit unions to pay tax at the small business tax rate on income above the small business income threshold. Credit unions will continue to be exempt from the provincial capital tax on financial institutions.

This legislation also introduces administrative provisions that will allow eligible corporations to claim a Saskatchewan commercial innovation incentive tax rebate. Separate legislation has been previously introduced by the Minister of the Economy which sets out the eligibility criteria for this incentive which is designed to complement Saskatchewan's existing competitive advantages and encourage firms to establish new operations in the province.

This tax rebate will effectively reduce the Saskatchewan corporate income tax rate to 6 per cent on taxable income earned from the commercialization of qualifying intellectual property in the province for a period of 10 or 15 years, depending on whether or not the qualifying intellectual property is substantially developed in the province.

This legislation also reforms the research and development tax credit to better target smaller and medium-sized Saskatchewan innovation companies.

I'm also bringing forward today, Madam Chair, a House amendment to Bill 69 to correct dates that had been listed in error.

Thank you for allowing me to make these brief comments, and I'm now prepared to answer questions.

The Chair: — Thank you, Minister. Questions? Ms. Sproule.

Ms. Sproule: — Thanks, Madam Chair. Thank you, Mr. Minister. Much has been said about these changes since the budget was introduced in March. But I guess the big thing that I think people are talking about, and we saw it particularly in the libraries' decision, but there's a number of cuts to services that we see in this budget and yet we see some tax breaks being provided. And when you compare the two, I really would like to understand where the fairness analysis, with your colleagues in caucus and cabinet, was when we are seeing cuts to funerals for people who can't afford funerals, hearing aids, spiritual care, podiatry, all these programs, social programs that mean a lot to a lot of people.

In terms of the bottom line for the Saskatchewan government, I think it would be less than 1 per cent. In fact, I don't have the actual calculation, but I think it would be less than 1 per cent of the revenues for sure. And certainly, I think there's an equivalency in terms of the tax break that's been afforded some people as opposed to the cuts to these significant programs for a lot of people.

So just if you could share with the committee, sort of, what the rationale was or thinking in terms of these particular cuts to social programs and then the decision to provide tax breaks.

Hon. Mr. Doherty: — Sure, and I think we've had this discussion earlier when we did estimates, and delighted to have the discussion again. And I welcome the debate and in this sense. There's two sides to the ledger with respect to the budget and that's on the revenue side and, of course, the expenditure side. And when we looked at all the various expenditures that government is required to make to fulfill their commitments to what we call the essential programs, or in essence, programs that the people of this province expect and deserve from their provincial government.

And I emphasize provincial government because there's been, I think, some other debates with respect to programs or offerings that the provincial government has been involved in that ought to be in the federal realm, or ought to be in the municipal realm. And for whatever reason through the years, the province has gotten involved in these programs, and now it's just become the level of expectation that it's the provincial responsibility for those programs. And I would argue differently — and would welcome that debate on any number of those fronts — as to what is the province's responsibility in funding their constitutional requirements and responsibilities here in provincial jurisdiction.

On the fairness issue, what the balance we were trying to achieve here . . . And you've referenced this several times, where's the balance and where's the fairness on this. There are various programs with, inside ministries that are very large ministries. They're very large-spending ministries, whether it's in Health or Education, Social Services. I think you alluded to a couple in Social Services. Our justice system requires . . . is one of the top-spending ministries as far as the amount of tax dollars that go to support it. Inside those ministries, there are programs that that minister and those officials will look at to see if that's part of their core business or not.

I would separate that from saying, well, you know, you could have kept this program in place had you not done these tax cuts. That's fair. One could make those choices. Or we could have funded new programs. Or we could have taken these tax cuts revenues and not done them and pumped those into existing programs at a higher level. I mean those are the debates that you have inside of treasury board and inside caucus.

But the most important component to looking at why we arrived at this tax policy was because we have to ensure that we have a tax base to pay for any of those programs. And as I said to you, I think a while back — we met here under estimates — is that capital is like water. It will flow to the path of least resistance.

We know that corporations make investment decisions based on tax policy, regulatory regime, logistics with respect to transportation of their goods, their people, the availability of the skilled workforce, and their people to get in and out of the jurisdiction that they're located in. And so when you look at that, the best social policy we have in the province is a job, is someone having a job.

And so how do we compete with those jurisdictions, particularly right next door to us who don't have a provincial sales tax and had the wherewithal to reduce their corporate or personal income taxes if they so choose? And then we looked to our neighbouring jurisdictions both to the south and to the east of us where we need to remain very, very competitive just to compete with those jurisdictions on the attraction of capital and investment that creates jobs.

We take the view that government's not the creator of jobs in this province, that the private sector is the creator of jobs in this province. And so what do we as a government need to do to ensure that we can continue to build our economy, continue to attract people to this province, and allow them to build the tax base to pay for all those things that you alluded to earlier. We also have a $1.2 billion deficit we had to deal with because of lack of resource revenues.

So I've had the question said to me many times is, you know, what did you do with all the money. We've heard it from you and your colleagues, and we've heard it from other folks is, what did you do with all the money.

Well I would argue that we've got 160,000 more people here in the province since our government came to office. I think turning $6 billion in tax cuts back into the pockets of individuals and farmers and businesses to allow them to make the decision to spend that money as they so choose — and many of them chose to reinvest it back into their businesses to hire additional people — I think played a great part in having 160,000 more people here in the province because there were jobs here. And our young people stayed here because there were jobs here. And they came from other jurisdictions, whether it's in-migration from other provinces or migration from, immigration from other countries, they came here because of the opportunities that existed. And those opportunities existed because businesses decided to reinvest into their business or start a new business here to create those jobs.

So how do you continue that momentum when you're dealing with an economy that in certain sectors of our economy are going through some challenging times? That's primarily in the commodities sector. Well you try to incent those types of companies to reinvest more dollars into the economy, that are existing here, or attract new businesses to come to the province to continue that job growth and continue that population growth that will sustain our revenue base for all of those different kinds of programs you talked about. So it is a fine balance here. It is . . . Did we get it right? Well I guess time will tell. We can have that debate.

And I've yet to hear anybody else offer up an alternative solution with respect to what they would do when faced with the same situation. There's lots of criticism to go around for the different expenditure reductions here in the province in this budget. I fully acknowledge that and accept that debate. But what's the alternative then? And that's what I'd like to have a discussion about.

So this was where we ended up with respect to if we're going to increase consumption taxes the way we did, expand the base, increase the rate from 5 to 6 per cent, what can we do both for low-income individuals . . . And keep in mind 112,000 low-income individuals don't pay a dime in provincial income tax in this province any longer because of this government. What can we do to continue to assist those businesses who are making investment decisions, either reinvesting in their business or relocating to this province to invest in a new business, to continue the growth plan that our Premier established several years ago? That's where we ended up on this.

Ms. Sproule: — How can you analyze whether this cut in income tax for corporations — we've talked about it a lot — or the fairly wealthy people in the province, how do you measure whether that will actually create more jobs?

Hon. Mr. Doherty: — Well let's be clear here now. It's not just an income tax for the fairly wealthy here in the province. It is an income tax cut across the board for every income level in the province.

The most recent statistics I have is 13 per cent — 13 per cent — of individual taxpayers in this province pay almost 50 per cent of our provincial income tax, our personal income tax. You can't afford to lose those high income earners. They're the ones that reinvest into your economy by buying new vehicles and building houses and hiring people into their businesses and spending money in the economy. Thirteen per cent represent almost 50 percent, almost 50 per cent of personal income tax revenue in this province. We want to attract more of those kinds of individuals to Saskatchewan to invest here in the province.

Secondly, from a corporate perspective, how do we judge that? Well I think Joanne answered that question on your initial question as we sat down here this afternoon. And it goes into our econometric model and you say, okay, what is the impact if we do this or do this or do this or do this? As you said earlier, Ms. Sproule, there are an infinite number of permutations and combinations you can plug into to say, okay, you know, if you did this and did that and did that, what does the econometric model say?

We tried to minimize the impact on the GDP of our province knowing full well that there was a substantial increase — I've acknowledged that — on the consumption tax base and what can we offset that with on the personal income tax base and the corporate income tax base. And all too often I hear corporate income tax only applies to those big businesses. No, corporate income tax rate cut applies to a business that's in excess of $500,000 in taxable income. So you could have a small business making $600,000 in taxable income, and there are a lot of them in this province. I dare say I've got some colleagues in my caucus, caucus colleagues that run some of those businesses. They're going to receive a corporate income tax cut.

It is a business tax cut. It's not just for the corporations. And we paint them to be these large, massive, international, multinational corporations who are our cronies, and we're giving them a tax break. No. It is thousands of businesses across the province that make in excess of $500,000 in taxable income that are going to receive a benefit from this, that are going to take that money, I dare say, and reinvest it into their business or give their employees a wage increase or spend it in the economy through the procurement of goods and services.

Ms. Sproule: — I'm just wondering how or why you could suggest that it's more important to give these high-income earners this cut than hurting people who are penniless, that die penniless or need hearing aids.

Hon. Mr. Doherty: — Well again, I think it's, you know . . . Let's be fair here. We did not eliminate support for indigent people for their burial. We did not eliminate that. That's still in existence here today.

What the Minister of Social Services has explained is that there were additional costs being paid for by the taxpayer for funeral services that go beyond the regular funeral for indigent people. That's still in existence here today.

We also know that we were paying things like travel vouchers for individuals to come for these kinds of funerals, at the same time we're paying them reimbursement for their mileage. They would get a travel voucher just for showing up even though we're paying for their mileage. To me that's a duplication of payment, but that the taxpayer's paying for. So those are the kinds of things you need to take a look at to ensure that we're talking apples to apples here.

[15:00]

We aren't giving a tax break to the wealthiest in this province and nobody else. We are giving a tax break to every taxpayer in this province, regardless of their income level. We need to be clear on that. And 13 per cent of individual taxpayers pay for 50 per cent of those kinds of services on the revenues that we collect through personal income taxes.

Now maybe you don't want them to live here. I don't know that. I kind of want more of them here in the province of Saskatchewan. And if we can provide an incentive from a competitive perspective, from neighbouring jurisdictions where they're perhaps not so happy with what's going on in those economies right now and taking a look at moving elsewhere, I want them to take a look at Saskatchewan.

Ms. Sproule: — Let's move on. I'd like to talk a little bit about indexation and why the decisions were made. I think you've decreased the amount for each personal income tax bracket in the budget by one percentage point. Was any consideration given to changing the income thresholds for the brackets?

Hon. Mr. Doherty: — So with the freeze of indexation, we will reduce, when fully implemented, all three tax brackets by a full point, but the thresholds, as you described them, will stay the same at the 2017 levels. And I think that the language I used was, we suspended the indexation for the 2018 tax year that will be revisited as we go along to determine whether we could re-implement that or not.

Ms. Sproule: — So what was the impact? I'm not really sure I understand this indexation. So what was the impact on the budget?

Hon. Mr. Doherty: — So indexation, of course, means that you account for inflation. So you index the bracket to account for inflation. So we estimate it to be about $10 million on an annualized basis. By not indexing the individual brackets to account for inflation will result in about $10 million in additional income tax being paid.

Ms. Sproule: — I think you've indicated that that's just for one year at this point in time. Are you going . . .

Hon. Mr. Doherty: — I used the language, it's been suspended for the 2018 tax year. We will revisit it as we go along to determine if we can re-implement it or not.

Ms. Sproule: — All right. Now if I understand correctly, indexation would lower, or widens the lower tax brackets. So it helps to ensure taxpayers' burdens stay in step with the cost of living, if that's correct. So eliminating the indexation would mean that any savings from the drop would be eaten up by inflation. Is that how that works?

Hon. Mr. Doherty: — So just so we're clear and we understand how indexation works. So let's say it's $100, and inflation, the rate of inflation is 2 per cent that year. Then your $100 would only buy $98 worth of product in the ensuing year. So you index the bracket to $102 to offset the 2 per cent inflation factor. We're not doing that. We're suspending that for the 2018 taxation year.

So it is in effect a bit of a tax increase, if you will, for the 2018 taxation year that we anticipate in this fiscal year will result in about $1.9 million to the treasury. And when fully annualized, if we kept it in place for the entire four years, it would be about $30 million annualized out four years from now.

Ms. Sproule: — And I thought you mentioned $10 million earlier. What was that in relation to?

Hon. Mr. Doherty: — Sorry, it goes 1.9 in this fiscal year, but because it doesn't come into effect until taxation year 2018, it only encompasses the three months. So the first full fiscal year will be $10 million, growing to 30 million in the third year because it's cumulative.

Ms. Sproule: — Thank you. So this is essentially a tax increase then.

Hon. Mr. Doherty: — Yes.

Ms. Sproule: — Yes. Okay. The manufacturing tax credit, what kind of analysis was done to determine that changing it from non-refundable to refundable was a prudent change?

Mr. Srinivas: — Hi. Arun Srinivas with the taxation and intergovernmental affairs branch. The amendments do not change the nature of the manufacturing and processing investment tax credit. What they are doing is increasing the rate of the tax credit from 5 per cent to 6 per cent, in conjunction and to maintain the matching with the PST rate.

Ms. Sproule: — So this isn't being changed from non-refundable to refundable?

Mr. Srinivas: — No. No. The M & P investment tax credit was converted to refundable in 2006.

Ms. Sproule: — Okay, so basically . . . I'm sorry, I misunderstood then. You are actually increasing the credit rate or the size of the credit then basically.

Mr. Srinivas: — That's correct, to match the PST rate.

Ms. Sproule: — And in terms of effect on the treasury, what sort of cost will that be for the treasury?

Hon. Mr. Doherty: — So it will cost the treasury $6 million a year.

Ms. Sproule: — Will that increase as more people take advantage of it, or is that kind of a, you know that that's a flat total?

Hon. Mr. Doherty: — So you're correct. You know, if there are large projects that hadn't been anticipated, they can move the needle. But on average, I'm advised, that it turns out to about 6 million a year, is what they forecast.

Ms. Sproule: — And that's the change, is $6 million. What is the total?

Mr. Srinivas: — We have it in the budget in the list of tax expenditures at $15 million per year.

Ms. Sproule: — Is that including the 6 million or is that previous to the 6 million?

Mr. Srinivas: — That would be . . . Oh, I'm sorry. Sorry, I was reading the wrong line. It's $36 million, including the 6 million.

Ms. Sproule: — So it would have been $30 million last year, basically, on the expenditures?

Mr. Srinivas: — Basically, yes.

Ms. Sproule: — All right. So that's basically a 20 per cent increase. What are you hoping to achieve with increasing this tax credit?

Mr. Srinivas: — I'm sorry. I missed the question.

Ms. Sproule: — What are you hoping to achieve with the tax credit? Like what are the gains for the government and the people of Saskatchewan?

Mr. Srinivas: — So the tax credit was designed, it was introduced in 1995 and it was intended to encourage investment in capital plant and machinery in the manufacturing sector in the province. It is intended to notionally offset the PST that is being paid on that investment, which is why the rate has traditionally been set to match the PST rate.

Ms. Sproule: — All right. I'm starting to understand a little bit, so thank you. What was the PST rate in '95? Do you recall?

Mr. Srinivas: — In 1995 the PST rate was 9 per cent.

Ms. Sproule: — Nine per cent. So that's fairly hefty. Okay. It's an interesting story. I think I'd like to know more as a historian, myself. I think that'd be interesting to learn more about it.

I want to move on now to the patent box initiative. I think it's clause 25 of the bill and this is creating this 6 per cent tax structure, maybe, I don't know if that's the right word. So what sort of costs will this now represent for the treasury?

Mr. Srinivas: — So the Saskatchewan Commercial Innovation Incentive is designed as a new-growth tax incentive, which means that it's designed essentially to rebate tax revenue that the province currently isn't getting and would only get through the investment of corporations that are coming to Saskatchewan because of this incentive. So I guess we don't have an explicit tax expenditure cost because it is, what we're returning is revenue that we don't currently receive.

Hon. Mr. Doherty: — In other words we'll need some experience with it to be able . . . Because it is brand new, we'll need some experience with it to determine what kind of uptake there will be on it.

Ms. Sproule: — But there are companies doing research and development in Saskatchewan right now that may be eligible for this incentive if they meet all of the requirements, and they're paying taxes right now. Maybe?

Hon. Mr. Doherty: — They might not be profitable enough to be paying taxes right now.

Ms. Sproule: — Oh I see. Okay. Thank you.

Hon. Mr. Doherty: — Let's not confuse the R & D [research and development] tax credit, both non-refundable and refundable, that we have in place with this brand new incentive, this patent box tax credit. You're right, there is an existing non-refundable R & D tax credit. We reintroduced the refundable R & D tax credit in this budget and the patent box tax incentive that is brand new, so we don't have any experience with it. But we can certainly give you figures on the refundable and non-refundable R & D tax credits.

Ms. Sproule: — Sorry. I'm confusing the two. So I'll get to the R & D stuff in a minute. Patent box. So we don't know what sort of cost there would be because it's all new business that will be coming in and therefore . . . Okay. I understand that.

If there is a significant amount of interest in this incentive, is there any cap that you're looking at to ensure that, you know . . . When would they be too successful?

Hon. Mr. Doherty: — That's wishful thinking. I suppose we would have to . . . I don't think we've set a cap. I'm looking at . . . we haven't set a cap?

A Member: — No.

Hon. Mr. Doherty: — So, you know, you would pay the 6 per cent corporate tax rate, if you qualified for this, for the patent box tax credit and you could use that for 10 or 15 years, depending on the level of which the R & D was developed or the patent was developed, whatever's being patented was developed here in the province of Saskatchewan. So again, based on the rules and regulations we have right now, you would qualify for either 10 or 15 years to utilize that corporate tax rate if you qualified. So unless we made changes to it, or as you said, it got too successful . . . But keep in mind, it's new-found revenue, so it's . . . Every dollar that would come into that is revenue that we would not have had without the incentive.

Ms. Sproule: — Okay. I'm going to go to the R & D tax credit in a bit, but I did want to touch on the credit union discussion. I know I raised it in committee, and I certainly raised it in the adjourned debates as well. And I know there's some differing numbers. The credit union has claimed that this will cost them $11 million. I believe in committee you indicated 7 million. Have you had a chance to compare those numbers with the credit union system to confirm which number would be more appropriate?

Hon. Mr. Doherty: — It's a great question. And I've met with representatives from Credit Union Central and individual credit unions and have raised the difference in the numbers as well. A couple of things. I'm advised that the actual provision has ranged from — this was the uptake by credit unions — has ranged from 6.8 million to approximately $11 million.

So we believe the average will be about $8 million per year based on the average of the past four years, without including the corporate income tax reductions that they would qualify for. And they readily acknowledged to me when I met with them that they had not factored that into their $11 million figure. We kind of have factored that in.

Ms. Sproule: — I think the concern still remains though, that as you know credit unions' ability to access capital and seek kinder pastures maybe, when it comes to income tax, through moving throughout the country, is not something that's available to them. So the impact this is going to have on hometown credit unions is going to be significant. I know they've advocated that, I'm sure way more articulately than I am. But is there any thought to maybe looking at this particular hit and making it less painful? Have you looked at this at all?

Hon. Mr. Doherty: — Well again keep in mind, this is being phased in over four years, so the impact of this will not be fully realized until four years from now. The federal government, it phased in over five years, and we're phasing it over four years.

I will say this. As I've said to other organizations or sectors that have had their taxes changed, I've said, I want to monitor this and I want to know what impact it's having on your credit unions. Both Sask Central and . . . you know, without naming the individual credit unions that I've visited with, have said, look, we want to work with the government on this. We understand what you did and why you did it. We may not agree with it, but we understand what you did and why you did it. I said, look, keep us apprised. Our door is always open. Keep us apprised.

[15:15]

What members of the caucus have said to me, they were very concerned again, about capital drying up in rural Saskatchewan in particular. And let's not, you know, if we're being too onerous because of this tax change that capital dries up, I want to know about that. And so I asked them about their lending ratios. And I asked them about, you know, the . . . They gave me great statistics on their default rates and loan delinquencies and the amount of borrowing that's going on, because that's a leading indicator of investment back into the community.

And I would say . . . I don't recall the numbers offhand. I just remember saying that they were quite strong, based on their lending ratios right now. And so if it impacts their ability to lend money, we want to know about that. And they all — particularly SaskCentral who obviously represents all the credit unions in the province — absolutely said, we will keep you apprised of what's happening there.

Ms. Sproule: — Just one other question. I think we've already covered this, but I want to be sure. Have you done a specific jobs impact analysis for this bill? I think, no, it's the same as . . . Yes, okay, she's nodding.

Hon. Mr. Doherty: — It's the exact same answer it was for . . . [inaudible].

Ms. Sproule: — Yes, okay. I just wanted to make clear that was on the right . . . She was being very clear with her head, so that hasn't been done specifically.

Hon. Mr. Doherty: — But as I said, the budget indicates 1,200 net new jobs in Saskatchewan in 2017-18. And that's based on all of the different inputs and outputs, based on tax changes and everything else that we get from the Ministry of the Economy, and our own economic analysis. So no specific job impact based on these particular changes because you've got to take them all together.

Ms. Sproule: — Just to get a sense of how accurate the modelling is, did you do the same sort of analysis in the previous fiscal year for jobs, and how did that turn out?

Hon. Mr. Doherty: — On page 36 of last year's budget, we had forecast in last year's budget a job loss of 3,200, and it actually came in at a job loss of 5,200, which again speaks to . . . Employment is a lagging indicator. So that also translates into loss of personal income tax and consumption tax spending because, if you have less people working obviously, or people who don't have a job tend to obviously spend less and aren't paying any income tax. So we missed it by 2,000 jobs last year. It was actually worse than what we had forecast.

Ms. Sproule: — Thank you. You said employment is a something indicator. "Lag" — was that the word?

Hon. Mr. Doherty: — Lagging indicator.

Ms. Sproule: — Lag. Okay, thank you. Or either way, if it increased it would be a . . . indicator.

Hon. Mr. Doherty: — It's still a lagging indicator because we don't know the data . . .

Ms. Sproule: — Because you're always catching up.

Hon. Mr. Doherty: — Right.

Ms. Sproule: — Right. Okay. Perfect. Thank you. Now just a few questions on the non-refundable or refundable R & D tax credit. So in '15-16 it was revoked as a refundable credit and made non-refundable. Now it's refundable again. Can you share with the committee why? And was there pushback from industry on that?

Hon. Mr. Doherty: — There was. I think it's fair to say that both myself and colleagues in the caucus and the Premier himself were lobbied heavily — maybe "heavily" is too strong a word — were lobbied because we have these start-up, young start-up entrepreneurs in Saskatchewan, in both Saskatoon and Regina but in certainly some rural areas as well who, their biggest impediment is . . . When we provided a non-refundable tax credit, you don't actually benefit from it until you start paying corporate income tax, and then you get a tax credit back or you get your . . . you can apply the tax credit against corporate income tax owing. Whereas a refundable tax credit is a cash flow item because, regardless of if you had made any money, if you didn't make any money, the taxpayer actually gave you some money, and they would use that to reinvest in their start-up business.

And so we had feedback through MLAs. And the Premier certainly had a conversation with me based on some feedback he was getting that their biggest impediment is access to capital, and they could really use the refundable tax credit because they'll go to jurisdictions where they're . . . All they need is another $10,000, if you will, or you know, whatever the example may be, to get their start-up project over the line, to commercialize it and to start to make money off it.

So when we took a look at it and realized that we were losing these young entrepreneurs to other jurisdictions who offered a refundable tax credit, and where we could afford it . . . Again it's another incentive to keep people here in Saskatchewan. And then we combined the two so that you can't qualify for more than a million dollars between the non-refundable and the refundable tax credit on any given particular year.

Ms. Sproule: — I think that was some of the arguments for retaining the film employment tax credit as a refundable tax credit.

Hon. Mr. Doherty: — We had this discussion three weeks ago.

Ms. Sproule: — Yes, I know. You're explaining it again, but I have to remark on that because we lost a number of jobs from Saskatchewan through the loss of the refundability part of it, for the exact reasons that you're saying it's now important for this.

Hon. Mr. Doherty: — We can rehash that debate again, if you would like. I mean, again 49 per cent of the procurement of goods and services in the film industry were procured outside the province of Saskatchewan. These young entrepreneurs are staying in the province of Saskatchewan, commercializing their product here.

Now what I would say is that that was a straight, for all intents and purposes, it was a straight grant program. We've replaced that with Creative Saskatchewan that has a straight grant program that I am told — it's not my file any longer; it hasn't been for a few years — that I am told the film industry and the music industry and visual artists and sculptors and what have you, authors, are accessing capital there through Creative Saskatchewan and through the Arts Board, to help pay for their projects.

So we are providing money to the creative industries here in the province through those vehicles. So I understand your argument and we can rehash this debate again, but that's where we're at.

Ms. Sproule: — I don't think today. So carrying on with the R & D. Now I've been told that supporting tech start-ups are a focus for your government in your effort to diversify the economy. Is that correct?

Hon. Mr. Doherty: — Well it certainly is. You know, that's probably a better question for the Minister of the Economy, who has sector analysis, and they're responsible for which sectors of the economy we want to focus on. I would defer to him on that question.

What our job is to do is to provide the incentives or to analyze the incentives that we put in place, to determine whether (a) they're affordable — are they achieving what we want them to achieve — and how does it fit into our overall fiscal and economic policy.

Ms. Sproule: — Okay. But I've also been told by contacts who work in the industry that government didn't go far enough in reinstating the credit. Instead there's some money that's being put into a new tech start-up incubator at Innovation Place. Do you know anything about that tech start-up innovator?

Hon. Mr. Doherty: — We're just looking this up. I'm told that there was $50,000 allocated to Innovation Saskatchewan for this. I know that there's a private sector entity that is trying to develop an entrepreneur incubator here in the city of Regina that is not government funded, but we're just looking. It's not a part of our ministry allocation but we'll . . .

Ms. Sproule: — Thank you.

Hon. Mr. Doherty: — So I'm just reading from Innovation Saskatchewan's budget note:

> There's $250,000 is being provided to establish a technology incubator. The program is intended as a low-cost, industry-driven program designed to assist early stage technology entrepreneurs in commercializing their products. The funding provides for three staff and office furnishings. The technology incubator will partner with Innovation Saskatchewan, Saskatchewan Opportunities Corporation, to provide low-cost space for technology start-ups.

So it's primarily to provide space for, as I understand it, for these technology start-ups to have a place to call home.

Ms. Sproule: — I think the concern that's being raised is that, and I need to understand this myself, but the refundable tax credit has not been fully reinstated. Is that correct?

Mr. Srinivas: — It is fully reinstated as a refundable tax credit, but it is limited in respect of the first $1 million of qualifying expenditures by a Canadian-controlled private corporation.

Any other corporation or qualifying expenditures above that limit or qualifying expenditures by any other corporation will be eligible for a 10 per cent non-refundable tax credit up to a combined total of a million dollars per taxation year.

Ms. Sproule: — And in the prior years, was that $1 million cap in place, or is that new?

Mr. Srinivas: — No. In prior years, prior to this budget's change, the non-refundable tax credit did not have a cap at all. Prior to 2015 when there was a refundable tax credit, but it was restricted to Canadian-controlled private corporations to a maximum of, or up to $3 million of expenditures at that time.

Ms. Sproule: — So I think then the concern that's being raised is, why has it been limited to 1 million instead of 3 million, and then this 250,000 being put into this incubator which is . . . I think there's some concerns about that.

Hon. Mr. Doherty: — But it's just budget driven. Why 1 million versus 3 million? It's budget driven, which is why we put the cap in place and the combined cap in place.

And you know, I've had representations made to me by individuals involved in angel investing if you will, that, you know, we aren't competitive with the neighbouring jurisdictions on tax credits with respect to angel investing. There are individuals in the province who want to, who are in the midst of creating a capital network and would like government to provide some kind of incentive to keep these folks again here, and not go to Alberta or Manitoba or other jurisdictions in Canada. I can tell you that on an annual basis we take a look at these kinds of things, and if it's affordable and we can see the return on investment.

I can't speak to the $250,000. I apologize. Minister Harrison would be the one to ask about the intent there, but if there's concerns being expressed about that we ought to relay that to Minister Harrison.

Mr. Srinivas: — All right, just to provide a little bit more information. Based on our experience with the tax, the refundable tax credit pre-2015, the million-dollar threshold we think will capture the vast majority of companies that were applying.

Ms. Sproule: — All right. I think at that point, Madam Chair, that is the extent of the questions I have on this bill.

The Chair: — Thank you, Ms. Sproule. We will move now to vote off Bill No. 69, *The Income Tax Amendment Act, 2017*. Beginning with clause 1, short title, is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

[Clause 1 agreed to.]

[Clauses 2 to 19 inclusive agreed to.]

[15:30]

Clause 20

The Chair: — Clause 20. I recognize Mr. Phillips.

Mr. Phillips: — Madam Chair, I'd like to make the following amendment to clause 20 of the printed bill:

> Amend section 63.4 of *The Income Tax Act, 2000*, as being enacted by Clause 20 of the printed Bill:
>
> (a) in subclause (1)(b)(i) by striking out "April 1, 2017" and substituting "March 31, 2017";
>
> (b) in clause (11)(a) by striking out "April 1, 2017" and substituting "March 31, 2017"; and
>
> (c) in clause (12)(a) by striking out "April 1, 2012" and substituting "March 31, 2017".

The Chair: — Mr. Phillips has moved an amendment to clause 20. Do committee members agree with the amendments as read?

Some Hon. Members: — Agreed.

The Chair: — Carried. Is clause 20 as amended agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried.

[Clause 20 as amended agreed to.]

[Clauses 21 to 26 inclusive agreed to.]

The Chair: — Her Majesty, by and with the advice and consent of the Legislative Assembly of Saskatchewan, enacts as follows: *The Income Tax Amendment Act, 2017*.

I would ask a member now to move that we report Bill No. 69, *The Income Tax Amendment Act, 2017* without amendment . . . [inaudible interjection] . . . With amendment, sorry. Mr. Kaeding so moves. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. All right, folks. Thank you. That concludes our business for this afternoon. Mr. Minister, if you would like, any closing comments you'd like to make.

Hon. Mr. Doherty: — I would, yes. Thank you, Madam Chair. I want to thank my colleague, Ms. Sproule, for the great questions, and colleagues on the government side. And I most especially want to thank Finance officials, very, very capably led by the deputy minister of Finance, Clare Isman — who I get to spend a lot of time with, probably more so than she would like, but who has a daughter getting married here next week, so she's quite excited about that — and all the Finance officials for the great work they do on behalf of the taxpayers of this province. So thank you and travel safe, colleagues.

The Chair: — Ms. Sproule, any closing comments you'd like to make?

Ms. Sproule: — Just to quickly echo what the minister has said. Thank you so much for the work you do. And have fun at the wedding. And thanks to the minister for all the hard work he does as well. Thank you.

The Chair: — Thank you, Minister, and your officials. Thank you, Ms. Sproule. Thank you, committee members, for your time and patience this afternoon. And thank you to Hansard, and Stacey for the work she does as well to assist us. So thank you, everyone.

And I will now ask a member to move a motion of adjournment. Mr. Hart has moved a motion to adjourn. Is that agreed?

Some Hon. Members: — Agreed.

The Chair: — Carried. This committee stands adjourned to the call of the Chair.

[The committee adjourned at 15:34.]