

Ontario's Fiscal Competitiveness in 2004

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This report provides an estimate for 2004 of the impact of expenditure and tax policies on the cost of doing business for Ontario compared to five US jurisdictions (California, Georgia, Illinois, Massachusetts and Michigan). It also provides an analysis of several tax policy changes that would improve Ontario's competitiveness.

The impact of expenditure and tax policies on the cost of doing business is estimated by a summary statistic calculating the "marginal fiscal burden". Intuitively, the fiscal burden is the added cost of producing more output in a jurisdiction, induced by fiscal policies – taxes add to costs while subsidies reduce them.

For example, without taxes and subsidies, the cost of producing a product may be \$27 per unit. Suppose taxes, including corporate, payroll, personal income and sales taxes on capital and labour costs¹ total \$5 per unit, increasing the cost of goods and services sold to \$32. Suppose these taxes are offset by subsidies like public infrastructure, research and development support, pension, disability, education and health care subsidies that \$2 per unit of production, resulting in a \$30 per unit cost. The marginal fiscal burden can be expressed as a share of all costs, including taxes and subsidies, which would be 10 percent in this example (\$3 divided by \$30 per unit as the cost of doing business). The basic methodology used for estimating the marginal fiscal burden was described in Chen and Mintz [2003]. In this report, we update our calculations to provide an analysis for 2004. The analysis calculates marginal fiscal burdens on aggregate costs and the two types of costs: labour and capital.

The conclusion of this report is that Ontario's marginal fiscal burden has declined somewhat in 2004 compared to 2003 except in forestry and manufacturing but has virtually remained unchanged relative to the five US states (in fact slightly worsened relative to Massachusetts and Michigan).

Federal policies – lower corporate income and capital taxes – have been responsible for the fiscal relief given to Ontario businesses. However, the federal policies have been blunted by provincial policies that have eroded fiscal competitiveness, including higher corporate income tax rates and the new Ontario health premium tax in 2004.

Further, Ontario's marginal fiscal burden remains almost double the level in the five US states that we use for comparison. In 2004, the US has increased subsidies for education and, to some extent health care while Michigan reduced its Single-Business Tax rate in 2004 from 1.9 percent to 1.7 percent. Overall, the average US marginal fiscal burden fell by 0.2 percentage points, roughly equal to the reduction in the marginal fiscal burden in Ontario, although Massachusetts and Michigan experienced a larger tax cut than Ontario.

The US government has announced recently in 2004 several other corporate tax changes that will affect competitiveness of US companies – however, all these tax changes will be implemented in 2005 and are not part of this analysis.

¹ Property taxes are not included in our estimates since there are no data that can provide an industry breakdown of property taxes paid in Ontario. The omission understates (overstates) the marginal fiscal burden to the extent that property taxes are more (less) than municipal services beneficial to businesses.

These estimates also account for some new data: new estimates of education and health subsidies in Ontario and the US, new economic depreciation rates for information technology equipment, new estimates of research and development grants based on OECD data and earnings data.

The report also provides marginal fiscal burdens for Canadian businesses claiming the small business deduction. This estimate is provided in addition to the marginal fiscal burden estimated for entrepreneurial businesses that are too large to claim small business tax benefits.

Policy Changes in 2004

In 2004, several policy changes occurred affecting the cost of doing business in both Ontario and the United States. Below, each of the policy shifts is reviewed specifically in terms of their implications for the cost of doing business in Ontario and US jurisdictions.

Policy Changes in 2004 in Ontario

Several actions took place at both federal and provincial levels that affected Ontario's economy. The federal government completed its last cut in the general corporate income tax rate from 23 percent to 21 percent in 2004, eliminating any differences between manufacturing and processing and other sources of income. Further, the federal government reduced the capital tax rate from 0.225 percent to 0.2 percent of taxable capital in 2004. It also continued the reduction in the resource allowance, which has been 25 percent of profits, while phasing-in resource royalty deductibility (this affects Ontario's mining industry), a process that will be completed by 2007.

Ontario provincial tax changes, however, have offset federal reductions to some extent. The Ontario general corporate income tax rate was raised from 12.5 percent to 14.0 percent in 2004. The corporate income tax rate applied to manufacturing and resource income was raised from 11 to 12 percent as well.

Further, Ontario levied a new health premium tax, the maximum being \$900 per individual, with substantially higher tax rates above \$20,000 in income. A flat tax is paid according to income categories and the amount is phased-in until the full amount is payable. For example, over the income range \$20,000 to \$25,000 the premium of \$300 is clawed back at a rate of 6 percent per additional dollar of income. Other thresholds are set at \$36,000, \$48,000, \$72,000 and \$200,000 when the premium is increased to a higher level by \$150 but the clawback rate is 25 percent. Based on the profile of earnings across workers in Ontario, the effective marginal tax rate on personal income is estimated to rise 1 percentage point on average that will affect the taxation of both labour and investment income.

Ontario also increased the threshold for the capital tax but this had little impact on marginal investments for large firms since their taxable capital is well above the threshold and most small firms pay no capital taxes.

Ontario has also increased significantly elementary school expenditures on education in 2004 although we are unable to calculate the exact impact of per student subsidy without having up-to-date enrolment figures (see discussion below in the next section). However, postsecondary education expenditures have not been rising as fast as enrolment and therefore the education subsidies per worker are beginning to decline for new entrants in the labour force.

US Policy Changes

Several policies were adopted by the federal and state governments this year but none were too significant. Several federal personal tax cuts were provided, the most important being the increase in retirement and other savings plans limits, none of which are included in our estimates of marginal fiscal burden for entrepreneurial firms since they have limited effect at the margin for savings. The most important tax change was in Michigan where its Single-Business Tax, a form of value-added tax, was reduced from 1.9 to 1.7 percent. This tax is being phased out by a 0.1 percentage point per year, so long as Michigan's has the fiscal room. The federal government and some US states increased subsidies for education and, to some extent health care, the most significant being in Massachusetts.

Some Other Modifications in this Report

Several other modifications, especially due to the updating of data, have been incorporated in this report.

Ontario Modifications

The Department of Finance Canada with Statistics Canada is currently reassessing economic depreciation rates for assets. A higher economic depreciation rate raises the marginal fiscal burden since more profits are needed to replace capital. This can be offset if the capital cost allowance for tax purposes is increased to recognize the additional expenditure needed to be made to cover depreciation costs. The computer depreciation rate had been assessed to be 27.5% on a declining balance basis; this estimate is expected to be adjusted significantly upward. The tax allowance for computer depreciation has been increased by 50% from the previous 30% to 45% on a declining balance basis. Based on our discussion with Finance Canada, we also revised the economic depreciation rate for computers in our model to 41.25% for both 2003 and 2004 years. It is expected further changes will be incorporated when the official reassessment of economic depreciation rates becomes available.

Data on earnings have also been updated to the year 2003 based on the latest earning index and to the year 2004 based on a five-year average annual growth rate ended by 2003. Both the 2003 and 2004 effective personal tax rates have been adjusted.

Further, Ontario health and education expenditures have been rising. Health data have been updated to the year 2001 and indexed to reflect expenditures in 2003-4.

However, in the case of education, the expenditures have not matched increased enrolment at the post-secondary level. Thus, a reduction in per student subsidies has been evolving. As our updated enrolment data applies to 2000, we have used the new subsidy numbers for both 2003 and 2004 years. The effect of lower subsidies is to increase the marginal fiscal burden on labour by 2 percentage points.

Data on research and development taken from the OECD (2003 edition) have also been updated from 1991 to 1995, indexed to 2003 using aggregate data. The public grant portion of research has dropped for all industries except utilities and transportation from 1991 to 1995. The aggregate public grant portion fell further from 1995 to 2003 by two-thirds.

US Modifications

Revisions to US data included similar adjustments to the Ontario data. Economic depreciation for computers was increased same as Ontario. Capital stock weights, based on the Finance Canada model, were updated for the US as well.

Earnings data, using US Bureau of Labor Statistics, were all updated for each of the five states. Education and health care subsidies were also updated.

Research and development grant data were also revised using the same methodology for Ontario. US data are based on 2000 industry information (1996 was the data used previously in our earlier reports). US grant subsidies increased from 1996 to 2000 by an average ratio of 1.3 percent but the increase was especially high for transportation from 3.5 to 29.3 percent and communications from 3.4 to 37.3 percent.

Evaluation of Competitiveness

We provide 2004 estimates of the marginal fiscal burdens for Ontario and the five US states for large businesses (Table 1), entrepreneurs of medium and large businesses (Table 2), by industry in Ontario for large companies (Table 3), a comparison with 2003 for large and small businesses (Table 4), and a comparison with 2003 for large business between Ontario and the five US states (Table 5).

Large Companies

The marginal fiscal burden in Ontario for 2004 remains substantially higher than that in the five US states. The marginal fiscal burden on capital in Ontario is 30 percent, more than 12 points higher than in Massachusetts and about 16 points in Georgia. The marginal fiscal burden on labour is 28.3 percent in Ontario almost double all US states except for California. The marginal fiscal burden on costs is about roughly 13 points higher in Ontario compared to the five US states.

The sharp differences between the US and Canada arise from several factors. First, both personal and corporate taxes are lower in the five US States than in Ontario, once accounting both differences in tax bases, rates and special taxes like capital and payroll taxes. Second, both infrastructure and research and development support through grants are strikingly higher in the US, although Ontario provides greater tax support for research. Third, while health care subsidies are higher in Ontario, the education subsidy, after latest revised data, is somewhat less than the US.

Entrepreneurial Companies

Entrepreneurial companies are those closely-held by high-income owners, whereby personal taxes on dividends, capital gains and interest received by the owner are included in the marginal fiscal burden, unlike the case of large companies that raise capital in international markets. Thus, the marginal fiscal burden on labour remains the same (since the same earnings profile is assumed for workers) but the fiscal burden increases since investment income and capital gains earned by the equity owner increases.

As seen from Table 2, marginal fiscal burdens on capital and labour in Ontario are sharply higher than that in the United States. Overall, marginal fiscal burdens for entrepreneurial firms remain over 50 percent higher than marginal fiscal burdens compared to the US states in this study, except for the case of California where Ontario is about three-quarters higher.

Ontario Industry Marginal Fiscal Burdens

Marginal fiscal burdens vary sharply across industries in Ontario. Mining is subject to the lowest fiscal burden on capital (4 percent), well below the provincial average of 30 percent. This is mainly a result of the generous tax allowance for expensing most of exploration and development expenditure that account for more than 40% of the total mining capital investment. However, given the high earnings received in the mining industry, the labour fiscal burden is greatest (36 percent as opposed to the aggregate of 28.3 percent) offsetting significantly the low marginal fiscal burden on capital.

On the other hand, capital investments in wholesale and retail trade carry the highest marginal fiscal burdens. However, given the low earnings received by workers in the

retail trade industry, labour bears the least marginal fiscal burden among all industries, therefore resulting in the lowest fiscal burden on cost.

Transportation and storage, communications and public utilities bear somewhat higher fiscal burdens on costs in Ontario (for large firms) compared to the average, reflecting high burdens on labour costs.

Manufacturing is subject to a relatively low fiscal burden on capital investments, in part due to the more generous tax depreciation allowance for its investment in machinery and equipment, compared to most industries except mining and communications although a somewhat higher marginal fiscal burden on labour. Overall, manufacturing's marginal fiscal burden on costs is below the industry average although it is sharply more than the US marginal fiscal burdens.

How Has Ontario's Fiscal Competitiveness Changed?

Compared to 2003, Ontario's fiscal competitiveness improved marginally. For large firms, the marginal fiscal burden fell from 29.2 to 29 percent and for small firms (less than \$15 million in asset size) from 23.3 to 22.8 percent.²

However, not all industries had a similar experience. The marginal fiscal burden increased in forestry and manufacturing (large firms only) as a result of the hike in Ontario corporate taxes and the health premium. Manufacturing faced a higher combined federal-provincial corporate income tax rate since the federal rate was not cut for manufacturing and processing profits and Ontario raised the corporate rate by a percentage point. Further, the Ontario health premium increased the tax on labour costs, especially for forestry firms that are labour-intensive in production.

As for the US, the marginal fiscal burden was reduced only somewhat. Tables 5 and 6 provides a comparison of 2003 and 2004 marginal fiscal burdens for Ontario and the five US states. Overall, little has changed in terms of Ontario's competitiveness. Ontario's marginal fiscal burden declined by only a small amount – 0.2 percentage points. This was more than in California, Georgia and Illinois but less than in Massachusetts and Michigan. Ontario's competitiveness would have shown bigger improvement if the Ontario government did not counter the federal initiatives to improve competitiveness for Canada as a whole.

As well known, the US federal government is currently operating a large fiscal deficit at about 5 percent of GDP (the five state governments run little or no deficits except in California). The federal government in Canada operates at a small surplus and Ontario has a deficit at less than one percent of GDP. Thus, fiscal restraint to eliminate deficits would imply higher taxes or lower subsidies in the US compared to Canada. However,

² The estimate for small firms does not include personal taxes on investment income received by the owner. Instead, the estimates are consistent with the large firm case for illustrative purposes. Note no mining firms with less than \$15 million in assets operate at the "small" level.

how such measures would affect the cost of doing business (as opposed to other impacts on taxpayers) is too difficult to tell. At most, the fiscal advantage in the US would shrink by less than a half if fiscal actions led to higher fiscal burdens on capital and labour.

Policy Simulations

We consider several policy initiatives that could make Ontario more fiscally competitive in the longer term. Given the current Ontario deficit, any revenue losses would be difficult for the government to absorb in the short term. However, in the longer term, tax reductions are possible as the Province of Ontario moves to positive fiscal balances in the future. Further, taxes can be rebalanced by shifting tax burdens that reduce high tax rates that undermine growth in favour to those bases that are less internationally mobile or by eliminating special tax preferences (see Mintz and Wilson [2004]).

Some government programs are especially good at promoting economic growth and competitiveness such as infrastructure, police and fire services and education (Mintz 2001). Expenditures on health and other programs more related to consumption do not promote economic growth through greater public investment. It is important, however, that public programs be operated efficiently and effectively – otherwise, costs – and taxes used to fund programs – will be high without achieving economic growth objectives.

Certain taxes are particularly damaging to economic growth – these are taxes that undermine the incentive to invest in capital. Capital formation increases worker productivity and provides greater opportunity for businesses to reward Ontario workers with higher incomes. Further, better productivity is achieved by tax cuts that lead to lower marginal rates that benefit all businesses and individuals rather than being targeted to selected activities. Markets are best able to allocate resources to their most productive uses – thus, differential tax burdens result in a sub-optimal use of resources. If tax cuts also reduce differential tax burdens across economic activities as well as create greater incentives for capital investments, economic growth and competitiveness is best achieved.

In Table 7, we consider several potential tax reforms that would improve Ontario's fiscal competitiveness. We do not include an analysis of revenue effects since other work undertaken for the Institute for Competitiveness and Prosperity will provide this assessment. The policies in terms of their impact on the cost of doing business include the following:

Sales Tax Harmonization

Ontario could follow Quebec's strategy to convert the retail sales tax into a value-added tax, similar to the GST at the federal level. Alternatively, it could pursue a policy, similar to British Columbia to eliminate or substantially reduce sales taxes on capital inputs. The

impact of following through with these policies is to reduce the cost of doing business by 1.4 percentage points for large companies (29 to 27.6 percent) and 1.7 percentage points for small companies (22.8 to 21.1 percent). The effect of harmonization would especially improve capital investment since the cost of capital would be substantially reduced.

If Ontario fully harmonized its sales tax with the federal GST at 8 percent, only a small shortfall in revenue would be realized. By adopting a Quebec style VAT whereby some inputs like fuel and telecommunications would not be eligible for input tax credits, it would be possible to keep the tax reform revenue-neutral or even allowing for an income tax cut.

Reducing the Corporate Income Tax Rate to 7 Percent to Apply to All Businesses

A second policy change would be to reduce the Ontario corporate income tax rate to 7 percent that would apply to all businesses no matter the industry or size of company, a policy similar to Quebec (with a corporate tax rate of about 9 percent). This would imply that the general rate would decline from 14 to 7 percent; the manufacturing and resource income tax rate would fall from 12 to 7 percent; and the small business tax rate would rise from 5.5 to 7 percent. Not only would this improve competitiveness of businesses in general but it would reduce distortions in the tax system by removing differences among industries and eliminate the tax penalty for small firms to grow.

Overall, the marginal fiscal burden on costs for large firms would fall from 29 to 27.4 percent while increase for small firms from 22.8 to 23.3 percent. Overall all businesses, the marginal fiscal burden would decline from 26.9 to 26 percent.

The Ontario government would also find that the Ontario businesses would be attractively taxed at a rate of 29.12 percent (including the federal rate), which would be consistent with Scandinavian (ranging from 28 to 32 percent) and UK governments (30 percent) and slightly below the OECD average of 30 percent. As international studies have shown, businesses will shift profits to jurisdictions which lower rates. Estimates vary but recent evidence shows 4 to 11 percentage increase in the corporate tax base for each point reduction in the corporate tax rate (Mintz and Smart [2004] and Jog and Tang [2001]). With up to a seven point reduction in rates, the loss in revenue would be almost half mitigated by income shifting (taking an average of the two studies). That is to say, corporate tax rate cuts are not a major fiscal burden if governments cut substantially corporate income tax rates to avoid losing profits to other jurisdictions as multinationals shift income through financial and transfer pricing techniques.

Eliminate the Capital Tax

Ontario plans to phase out the capital tax by reducing rates after 2009. The effect is to reduce the marginal fiscal burden for Ontario large and medium-size businesses from 29

to 27.4 percent. Small businesses that pay little or no capital tax will not be significantly affected.

The elimination of the capital tax would reduce the impact of the tax system on those businesses that face financial difficulty or cyclical incomes since the capital tax is paid no matter how well the firm does.

Increase Capital Cost Allowances (CCA) by 25 Percent

A fourth policy is to increase capital cost allowances (CCA) to encourage more investment by businesses in machinery and structures. As an example, we simulate an increase in CCA rates by a quarter for all depreciable assets (with CCA no more than 100 percent for any asset). The effect is to reduce the marginal fiscal burden on costs for large businesses from 29 to 27 percent and for small firms from 22.8 to 21.7 percent.

The advantage of increasing CCA allowances is that it would encourage more investment in new assets expenditures rather than increase returns on old assets as in the case of corporate income or capital tax rate reductions. However, increasing the CCA rate only, without regard to the true cost of economic depreciation for assets, can distort business decisions in several ways. First, investments in depreciable assets would be favoured over other asset expenditures like inventories and land. Second, investments in shorter-lived assets will be favoured if the CCA adjustment tends to favour most those assets with already high CCA deductions due to their perceived short lives. Third, companies unable to use fast CCA deductions will look to sell tax shelters to investors in order to make better use of the losses. Fourth, unlike corporate rate cuts, the CCA deductions will not counteract income shifting that arises from differences between Ontario's corporate income tax rate and those of the rest of the world. Finally, introducing a CCA deduction that is different from what applied at the federal level could complicate tax administration and compliance and hence, increase administrative and compliance costs for governments and taxpayers respectively.

Nonetheless, a case can be made to improve CCA deductions when the allowance is inadequate to cover the true of economic depreciation costs. Recently, for example, the federal and provincial governments increased CCA rates for computers and broadband technology since they estimated that assets have shorter lives than estimated previously. As mentioned above, the federal Department of Finance is studying economic depreciation rates of assets and further increases in CCA may be justified to preserve neutrality of the corporate income tax system. It would be appropriate for Ontario to follow this approach to adjust CCA in light of new evidence on true economic depreciation for assets.

Reduce Personal Income Tax Rates by 10 Percent

As a final policy, we consider the reduction of personal income tax rates by 10 percent across income categories. The effect of this policy is to reduce the marginal fiscal burden on businesses from 29 to 28.6 percent and for small firms from 22.8 to 21.7 percent.

The small impact of the personal income tax rates on the cost of doing business reflects that federal personal income tax rates, which are more significant, do not change while Ontario rates would decline somewhat. For example, the top rate in Ontario, about 17 percent, would only decline to roughly 15 percent, resulting in a combined federal-provincial personal income tax rate decline from 46 to 44 percent. While personal income tax rate cuts would be useful to consider for other economic reasons – such as encouraging work effort and investment – the policy would be somewhat fiscally costly to enhance competitiveness.

Conclusions

Ontario remains sharply fiscally uncompetitive relative to five US states. While some positive actions have been taken at the federal level to improve fiscal competitiveness – a substantial reduction in corporate income tax rate and the phasing-out of the federal capital tax – Ontario policy initiatives have blunted the federal actions by raising corporate income tax rates and the imposing the health premium in 2004.

However, given the fiscal needs of the Ontario government, it will be sometime before Ontario can resume taking a path of improving fiscal competitiveness by reducing taxes and investing in programs that lower business costs. It would be possible to move earlier on a course of improving fiscal competitiveness if the government considers undertaking a tax reform that would rebalance the tax system towards economic growth without losing revenues.

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Table 1
Aggregate Marginal Fiscal Burden (in %) on the Cost of Doing Business
For Large Firms, Ontario vs. the Five States, 2004

	Tax on Capital	Tax on Labour	Tax on Costs
Ontario	30.0	28.3	29.0
California	14.4	19.5	17.5
Georgia	13.3	15.9	14.8
Illinois	15.0	15.4	15.2
Massachusetts	17.5	15.9	16.5
Michigan	15.5	14.6	15.0

Table 2
Marginal Fiscal Burden (in %) on the Cost of Doing Business
For Large Entrepreneurs, Ontario vs. the Five States, 2004

	Capital	Labour	Costs
Ontario	45.1	28.3	36.3
California	33.6	19.5	26.0
Georgia	30.5	15.9	22.6
Illinois	30.0	15.4	22.0
Massachusetts	33.2	15.9	24.0
Michigan	31.7	14.6	22.6

Table 3
Marginal Fiscal Burden (in %) on Cost of Doing Business in Ontario
For Large Firms, by Industry for 2004

	Capital	Labour	Costs
Forestry	28.3	19.1	20.6
Mining	4.0	36.0	27.1
Manufacturing	25.9	29.1	28.3
Construction	35.1	22.0	23.9
Transportation and storage	27.9	31.3	30.8
Communications	25.5	34.2	30.9
Public utilities	27.6	37.2	31.7
Wholesale Trade	35.4	28.5	29.8
Retail Trade	36.9	18.1	20.7
Other Services	34.5	27.2	29.0
Aggregate	30.0	28.3	29.0

Table 4
Marginal Fiscal Burden (in %) on Cost of Doing Business in Ontario
Changes from 2003 to 2004

A. Large Firms

	2003	2004	Change (in percentage points)*
Forestry	20.1	20.6	0.6
Mining	27.6	27.1	-0.5
Manufacturing	27.8	28.3	0.4
Construction	24.3	23.9	-0.4
Transportation and storage	31.3	30.8	-0.5
Communications	31.5	30.9	-0.5
Public utilities	32.2	31.7	-0.5
Wholesale Trade	30.8	29.8	-1.0
Retail Trade	21.3	20.7	-0.6
Other Services	29.0	29.0	0.0
Aggregate	29.2	29.0	-0.2

B. Small Firms

	2003	2004	Change (in percentage points)*
Forestry	17.9	17.9	0.0
Manufacturing	24.9	24.8	-0.1
Construction	21.8	21.8	0.0
Transportation and Storage	29.3	29.0	-0.2
Communications	28.8	28.5	-0.3
Public Utilities	33.0	32.3	-0.7
Wholesale Trade	26.8	26.7	0.0
Retail Trade	18.0	18.0	-0.1
Other Services	24.5	24.4	0.0
Aggregate	23.3	22.8	-0.5

***Difference in rates and year-to-year changes due to rounding**

Table 5
Changes in Marginal Fiscal Burden (in %) on Cost of Doing Business
For Large Firms, Ontario vs. the Five States, from 2003 to 2004

	2003	2004	Change in percentage point*
Ontario	29.2	29.0	-0.2
California	17.6	17.5	-0.1
Georgia	15.0	14.8	-0.1
Illinois	15.2	15.2	0.0
Massachusetts	17.0	16.5	-0.5
Michigan	15.4	15.0	-0.5

*Difference in rates and year-to-year changes due to rounding

Table 6
Marginal Fiscal Burdens on Cost (in %) for Ontario and the Five US States
2004 vs. 2003

Large Corporations		Ontario	California	Georgia	Illinois	Massachusetts	Michigan
2004	Capital	30.0	14.4	13.3	15.0	17.5	15.5
	Labor	28.3	19.5	15.9	15.4	15.9	14.6
	Aggregate	29.0	17.5	14.8	15.2	16.5	15.0
2003	Capital	31.0	14.4	13.3	15.0	17.5	16.0
	Labor	27.9	19.6	16.1	15.4	16.7	15.1
	Aggregate	29.2	17.6	15.0	15.2	17.0	15.4
Entrepreneurial							
2004	Capital	45.1	33.6	30.5	30.0	33.2	31.7
	Labor	28.3	19.5	15.9	15.4	15.9	14.6
	Aggregate	36.3	26.0	22.6	22.0	24.0	22.6
2003	Capital	45.7	33.6	30.5	30.0	33.2	32.0
	Labor	27.9	19.6	16.1	15.4	16.7	15.1
	Aggregate	36.5	26.0	22.7	22.1	24.4	22.9

Table 7
Marginal Fiscal Burden (in %) on Cost of Doing Business in Ontario
Simulations for Proposed Tax Changes

	Large Firms	Small Firms	Combined
Current case	29.0	22.8	26.9
Sales tax harmonization	27.6	21.1	25.4
Change CIT to 7 percent	27.4	23.3	26.0
Eliminate capital tax	27.4	22.8	25.8
Increase CCA by 25 percent	27.0	21.7	25.2
Reduce PIT by 10percent	28.6	21.7	26.2
