

Ontario's Fiscal Competitiveness: Still Some Way to Go

By

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This report provides an analysis of the 2006 fiscal competitiveness of Ontario relative to five US states – California, Georgia, Illinois, Massachusetts and Michigan – following up on earlier published work. Compared to our last analysis in 2004 (Chen and Mintz [2004]), Ontario’s fiscal competitiveness has improved in that effective fiscal burdens in Ontario have approached levels found in the five US states. Ontario remains somewhat disadvantaged fiscally in that taxes net of subsidies as share of the cost of doing business is still greater than that found in the five US states on average but the differences are not as large as in 2004.

Effective fiscal burdens are estimated taking into account taxes and subsidies affecting costs of production, whereby the costs are a sum of labour and capital costs. It is a more inclusive measure of how taxes and subsidies impact on production decisions of businesses that use capital and labour in production. For example, if the cost of production is \$90 without taxes and subsidies, but \$100 with taxes and subsidies, the effective fiscal burden is measured as \$10 or 10 percent of the total tax-subsidy inclusive cost of production.¹

While getting closer to removing fiscal disadvantages, Ontario has a long way to go to create an economic advantage to tilt the playing field towards itself in order to attract businesses to serve the large North American and global markets. Both population size and per capita incomes in the US are higher than in Canada so businesses, including Canadian-controlled companies, naturally look to locate their production facilities in the US rather than in a smaller jurisdiction like Canada.² As many smaller countries have found such as Australia in Asia and Ireland in the European Union, smart policies must be adopted to create a distinct advantage in a world with global business supply chains and networks. Ontario still has more work to do to create a distinct advantage as a premier location for business activities.

¹ The effective fiscal burden used in this paper is synonymous with the “marginal effective tax burden” used by the Institute for Competitiveness and Prosperity in its main report. To measure the effective fiscal burden, we include a measure of the more familiar effective tax rate on capital as part of the overall burden. This latter measure, as used in Chen and Mintz [2006], takes into account corporate income taxes, capital taxes and sales taxes on capital purchases in terms of how taxes impinge on capital decisions. Some analysts include payroll taxes and other non-capital related taxes as part of the effective tax rate on capital. As discussed elsewhere (McKenzie, Mintz and Scharf [1997]), this is inappropriate methodology since the measures of tax burdens then are affected by capital-labour ratios.

² Foreign direct investment studies confirm that the size of the market is one of the important factors to attract business production. See de Mooij and Ederveen [2003].

Substantial help has been provided by federal initiatives in the past three years that have made Ontario less fiscally unattractive to businesses. The federal government has reduced corporate income taxes and has eliminated the federal capital tax on non-financial businesses. Federal personal income taxes have also been reduced as well as the Employment Insurance premium. Along with provinces, greater spending has made on infrastructure and education.

On the other hand, the Province of Ontario has followed a different path after 2003. It is the only province in Canada to raise its corporate tax rate without an offsetting reduction in another tax on businesses like the capital tax that would reduce the overall effective tax rate on capital.³ Personal income taxes have been raised through the new health premium. While some additional spending on health care and infrastructure helps offset some of the tax increases, by and large the contribution by Ontario to its own competitiveness has been mute. Much of the action has been at the federal level to improve competitiveness.

As a result, compared to other provinces like Alberta, Saskatchewan and New Brunswick, Ontario has relatively high effective tax rates on capital (excluding intangible capital such as research and development).⁴ Its capital investment (structures and machinery) per worker at \$8400 is \$1500 below the average among all Canadian provinces and only three-quarters of the average of all OECD countries and two-thirds of that of the United States (Robson and Goldfarb [2006]). Furthermore, with looming labour shortages given an aging population and low fertility rates, Ontario's relatively high fiscal burden on labour compared to the US states in this study undermines work effort and participation in the work force. Overall, the Province should do more on its own behalf to improve its fiscal competitiveness rather than solely rely on the federal government to achieve a better tax structure.

Methodology and Comparison to Previous Work

As before, we measure effective fiscal burdens by incorporating taxes and subsidies that impact on the cost of doing business in Ontario and the five US states in this study. The effective burden is measured as taxes net of subsidies as a proportion of costs that are measured to include fiscal burdens. A higher

³ Quebec is lowering its capital tax rate and raising the corporate income tax rate, a process to be completed by 2009. Overall, the effective tax rate on capital will decline in Quebec. See Chen and Mintz [2006].

⁴ See Chen and Mintz [2006]. Ontario's effective tax rate on capital is highest among all the provinces and would top manufacturing and service industries among 81 countries excluding the Republic of Congo, China and Argentina.

effective fiscal burden implies less production to take place in a jurisdiction, assuming no other factors change.⁵

Conceptually, the effective fiscal burden on capital costs is measured by taking into account federal and provincial corporate income taxes, capital taxes, sales taxes on capital purchases, research and development grants and tax credits and infrastructure subsidies as they affect capital invested in different industries. The fiscal burdens are assessed by calculating taxes, net of subsidies, as a proportion of the gross rate of return on capital under the assumption that profitability is sufficient to cover not only taxes (net of subsidies) but also the cost of financing business investments. For example, if the gross rate of return on capital is 10 percent and the effective fiscal burden is 30 percent, the net rate of return on capital is 7 percent. If the rate of return, net of taxes, is insufficient to cover the hurdle rate reflecting financing costs, capital investment will not take place. Thus, the more taxes paid by businesses, the less investment is expected to take place.⁶

Similarly, for labour, the effective fiscal burden is measured by taking taxes net of subsidies as a proportion of the gross cost of labour. Taxes include personal income taxes (including an adjustment for the non-taxation of certain benefits like employer-provided health care), social security taxes paid by employers and employees (social security taxes in the US include taxes for Medicare) and sales taxes on current and future consumption derived from labour earnings. Subsidy rates that affect the cost of labour – public-provided health care, education, social security, workers' compensation and unemployment insurance -- are subtracted from marginal tax rates. Given that worker compensation premiums are experience-related and that the Canada/Quebec Pension Plan has been balanced for existing workers, the effective marginal burden from these programs on the cost of labour is treated as zero in the model. Similarly, most public US health care given to the elderly is, in principle, funded by payroll taxes paid during working life, the public health benefits in the US are assumed to be offset by payroll taxes even though there is evidence to show that there remains a significant unfunded liability for health care costs in the United States arising

⁵ The effective fiscal burden is measured as $T = at(K) + (1-a)t(L)$ where a is the share of annualized costs related to capital expenditures ($1-a$ for labour's share of costs), and $t(K)$ and $t(L)$ are the effective fiscal burden rates on capital and labour respectively. See McKenzie, Mintz and Scharf [1997] for a theoretical analysis and empirical application.

⁶ Economic studies have suggested that capital held by businesses is reduced by 7 to 10 percent for each 10 percent increase in the cost of capital, including taxes as part of costs. See, for example, Chen and Mintz [2006]).

from an aging population). US unemployment insurance, however, is only partially experience-rated. Overall, the effective payroll tax rate net of subsidies is below 0.5 percent in the US. For public education, subsidies as a share of wages are calculated by assuming that workers undertake training until the net-of-tax earnings from additional education is equal to the cost of acquiring education (foregone earnings and tuition and out-of-pocket costs).

Compared to our last analysis, we have made significant changes to the data, arising from various updates. The most important has been new data provided by the Department of Finance Canada that substantially changed capital stock weights among categories of assets (land, machinery, structures and inventory) and economic depreciation rates by asset category, estimated for the United States and Canada investment projects respectively. The effect of this new data is to substantially increase effective tax rates on capital in both Canada and the US states in this study. Also, the share of inventories has been reduced significantly. Along with a new study that suggests about half of inventories in the US are based on first-in-first-out valuation techniques for tax and accounting purposes, rather than the more generous last-in-first-out method⁷ permitted in the US so long as it is consistent with accounting practices, the difference in effective tax rates on capital for the US and Canada have been reduced noticeably. In our earlier work, the much higher-taxed inventory assets in Canada were a bigger share of investment resulting in an overall effective tax rate on capital that was sharply higher than in the United States.

Other updates including new infrastructure, research and development, education and health subsidies and earnings distributions across income levels by industry in Canada and the US to estimate marginal personal income tax rates. Tax rate variables have been also updated for the years 2005 and 2006, to reflect legislative changes. We have also included new effective retail sales tax on capital in Canada and the US as provided by Finance Canada. With updated input-output data from Canada and the US, we have recalculated the cost shares for capital and labour that are needed to aggregate effective fiscal burden rates on these inputs to an overall effective fiscal burden rate on costs.

So What Has Happened?

In our analysis, we have broken down our assessment to consider the effective fiscal burden on large and medium size multinational companies that have

⁷ With LIFO accounting for tax purposes, inflationary profits from holding inventories are effectively eliminated from the tax base unlike FIFO.

access to international capital markets to finance their investments and large and medium size entrepreneurial firms that must raise capital from their owners residing in the country. The difference between these two cases is that domestic dividend and capital gains taxes on shareholder income earned by entrepreneurs directly influence the cost of capital faced by the entrepreneurial firms and therefore included in deriving overall fiscal burdens.

Large and Medium Size Multinational Companies

The estimated effective fiscal burden on the cost of doing business, which is an aggregation of each fiscal burden on cost of capital and labour used in production, has fallen from 30.1 percent in 2004 to 28.3 percent in 2006 for large and medium-size companies in Ontario (Table 1), largely as a result of the federal reductions in business taxes.

Ontario's effective fiscal burden is estimated to be 3.2 percentage points higher than the simple average of the five US states in 2006. In contrast, the Ontario and five-US-state differential is 7.0 percentage points in 2004. The reduction of 3.8 percentage points in the differential is a result of an increase in the US effective marginal fiscal burden by 2.0 percentage points (especially due to the cancellation of bonus depreciation that led to a sharp increase in the effective fiscal burden on capital in the US) and a fall in Ontario's effective fiscal burden by 1.8 percentage points over these past three years.

Ontario's effective fiscal burden on costs is now close to high-tax California, 7.3 percentage points above Georgia, 2.5 percentage points above Massachusetts and Illinois, and 4.4 percentage points above Michigan. In 2004, the differences between Ontario and each US state were much higher.

A significant factor leading to a higher effective fiscal burden on costs in Ontario is related to labour costs of which the fiscal burden is 7.6 percentage points higher than in US. The much higher personal and sales taxes paid by Ontarians is not fully offset by lower payroll taxes in Canada compared to the US and health, unemployment insurance and education subsidies that are higher in Ontario compared to the US. On the other hand, the effective fiscal burden on capital in Ontario is now close to the five-US-state average although still substantially higher than that in Georgia (the other four states chosen for comparison tend to tax capital more highly than other US states in general). This is in sharp contrast to 2004 when effective fiscal burdens on capital were much higher in Ontario compared to the five US states (38.2 percent and 32 percent

respectively), reflecting the policy changes in Canada and the US as discussed above.

Entrepreneurial Businesses

For entrepreneurial businesses, the effective fiscal burden in Ontario is 35.1 percent in 2006 and 3.7 percentage points higher than in the simple average of the five US states (Table 2). The differential between Ontario and the five US states is much smaller than that in 2004 when Ontario's disadvantage was almost 7 percentage points.

Given that we assume that the entrepreneurial businesses have a similar distribution of workers across income classes as large companies, the effective tax rates on labour are nearly identical. The biggest change is the effective fiscal burden on capital where Ontario has fiscal burden of 49.2 percent in 2006 compared to the five-US-state average of 46.2 percent. This differential narrowed from 2004 when the difference in fiscal burdens on capital was much higher, almost equal to 7 percentage points. While the corporate tax policies adopted in Canada and the US had an impact in reducing the effective fiscal burdens in Ontario relative to the US, a higher federal-Ontario dividend tax credit provided in 2006 intended to forestall income trust conversions also contributed to a reduction in the effective fiscal burden on capital in Ontario.

Industry Results

We provide in Tables 3 and 4 a breakdown of effective fiscal burdens on capital, labour and overall costs for various industries for 2006 for multinational and entrepreneurial businesses. Only mining is not comparable since the five US states that have been chosen have little mining activity.

For multinational companies, effective fiscal burdens on costs are generally higher in Ontario compared to the five US states, ranging from forestry (1.2 percentage points higher in Ontario) to 15.2 percentage points in communications. Only one industry faces a higher fiscal burden in the US compared to Ontario and that is "other services", which includes business such as engineering and architecture and household services (such as barber shops). The higher effective fiscal burden in the US results from a greater share of capital used in US production compared to Ontario as capital tends to be more highly taxed than labour.

Effective marginal burdens on capital for multinational companies are especially higher in Ontario compared to the five US states for some important industries:

manufacturing (7.8 percentage points), transportation (8.9 percentage points), communications (21.7 percentage points), public utilities (11.9 percentage points) and retail trade (5.7 percentage points).

Results for entrepreneurial businesses are similar to the multinational case except that the differences between Ontario and the five US states are even more glaring.

Table 5 provides further information regarding the impact of taxes and subsidies on effective fiscal burden on costs for various industries in Ontario over the past three years. Forestry, retail trade and mining are the least taxed industries although for different reasons. Mining effective tax rates on capital are low because of deductions for capital costs and exploration are accelerated under the corporate income tax and a resource allowance is in excess of a deduction for mining profit taxes under the Ontario corporate income tax. On the other hand, forestry has a low effective fiscal burden on labour since employment insurance benefits provided to workers in the industry are significantly greater than the contributions paid by employers and employees as payroll taxes. Retail trade fiscal burdens on labour are small since incomes paid are relatively low, resulting in low marginal tax rates. The highest fiscal burdens are in communications and public utilities industries as a result of both high fiscal burdens on capital and labour.

As seen in Table 5, the inter-industry dispersion in effective fiscal burdens has not changed much from 2004 to 2006 although the levels have fallen across industries except for wholesale trade which was faced a higher fiscal burden on labour in 2006 due to increased use of skilled labour.

Federal and Sub-National Government Policy Impacts

The effective fiscal burdens can be split between federal and provincial impacts as shown in Tables 6 and 7. In 2006, the combined federal-Ontario fiscal burden on costs was 36.6 percent. Eliminating federal taxes, the fiscal burden drops to 27.9 percent (Table 6). In the US, the combined fiscal burden on costs is 36.0 percent averaged across the five US states. Excluding federal taxes in the US, the state-only fiscal burden on costs is 22.0. Thus, even though the combined fiscal burdens are similar in 2006, the state-level fiscal burdens in the US are about 5.9 percentage points lower than the Ontario-only fiscal burden on costs.

As another simulation, we thought it might be interesting to deepen our understanding to simulate the effects on fiscal burdens once infrastructure and

research and development subsidies are excluded (Table 6). Fiscal burdens rise substantially by over 5 points in both Ontario and the five US states, suggesting that research and infrastructure subsidies are not important factors significantly affecting the aggregate differences in fiscal burdens between Ontario and the five US states.

One further simulation is to consider the impact of different components of sub-national business taxes on the effective tax rates for capital for the large and medium size multinational businesses, which includes corporate income taxes, capital taxes and sales taxes on capital purchases, but excludes infrastructure and research and development subsidies. Excluding federal taxes, the effective tax rate on capital in Ontario is 27.9 percent (see also Chen and Mintz [2006]). Excluding the capital tax that is to be phased-out by Ontario early in the next decade, the effective tax rate drops to 23.5 percent. However, the sales tax on capital purchases has an even bigger impact on Ontario's effective tax rate on capital. If Ontario were to eliminate the sales tax capital purchases, the effective tax rate would drop by over a half to 11.0 percent.

As for the five US States, the state-level effective tax rate is lower than Ontario at 22 percent. The state retail sales taxes have an even greater impact on the US effective tax rate on capital compared to Ontario, which would be 4.9 percent without the state sales taxes.

Therefore, Ontario could make a sharp improvement in encouraging capital investment if it were to eliminate the retail sales tax on capital purchases. One method would be convert the Ontario sales tax to a Value-Added Tax whereby businesses can claim a refund for taxes paid on intermediate good and capital purchases, similar to the federal GST or the Quebec Sales Tax. This change would do far more to reduce the effective tax on capital compared to the elimination of capital taxes, which is legislated to being phased-out beginning in 2007. The revenue cost associated with sales tax reform can be mitigated by including some special taxes on business inputs that can be phased-out over time, as done in Quebec when it harmonized its tax with the federal GST in 1991. Further, the federal reductions in the GST rate from 7 to 6 percent in 2006 and a further promised one-point reduction makes provincial sales tax reform easier to implement. Overall, a VAT in Ontario would be a substantial improvement to its competitiveness.

This is not to say that other policies to improve competitiveness should not be considered. Ontario's statutory corporate income tax at 14 percent on non-

manufacturing and non-resource income is higher than that most other provinces (the statutory tax rate is 12 percent on manufacturing and resource income). A policy that would improve competitiveness, efficiency and fairness would be to move towards a single statutory corporate income tax rate of 12 percent and the adoption of resource royalty deductibility instead of the resource allowance for mining, similar to the federal government. The elimination of the capital tax on non-financial businesses should be accelerated and reductions in capital taxes on financial institutions should also be implemented. To make up for some loss in revenue, base-broadening initiatives should be considered that would eliminate special credits and deductions under corporate and personal taxes.

Conclusions

Our 2006 analysis of the effective fiscal burdens on the costs of doing business in Ontario and the five US states shows considerable progress in removing the overall fiscal disadvantage in Ontario compared to the five US states selected in this study. Nonetheless, quite significant disadvantages remain for manufacturing, transportation, communications, public utilities and retail trade compared to counterparts in the five US states. Certainly, Ontario does not create a fiscal advantage for businesses to locate in the province. Most of the achievement in improving competitiveness in Ontario is a result of federal measures.

Ontario should be doing more itself to improve its overall competitiveness. Personal income taxes, especially where rates are particularly high, should be reduced. Capital tax elimination should be accelerated. Ontario corporate income tax rates should be applied uniformly to all business activities at the 12 percent rate. A dramatic change in policy would be to convert the Ontario retail sales tax into a Value-added Tax, following either harmonization approaches in Quebec or the Atlantic. Sales tax reform need not result in a loss of revenues and could be accommodated by the federal cuts to the GST that allows for lower overall sales tax rates in Ontario.

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Table 1**Aggregated Effective Fiscal Burden (in percent) on Cost of Doing Business For Large and Medium Firms, Ontario vs. the Five States, 2004 - 2006**

	on capital	on labor	on Costs
2004			
Ontario	38.2	24.0	30.1
5 US States: 5-State Average*	32.0	15.1	23.1
California	34.8	18.6	26.2
Georgia	26.0	14.7	19.8
Illinois	34.1	14.1	23.8
Massachusetts	33.4	15.4	24.0
Michigan	31.7	12.5	21.7
2005			
Ontario	38.0	23.0	29.4
5 US States: 5-State Average*	36.0	14.8	25.2
California	38.6	18.3	28.2
Georgia	30.7	14.2	21.9
Illinois	37.9	13.9	25.9
Massachusetts	37.3	15.0	26.0
Michigan	35.6	12.5	23.9
2006			
Ontario	36.6	22.1	28.3
5 US States: 5-State Average*	36.0	14.5	25.1
California	38.6	17.8	28.0
Georgia	30.7	13.9	21.8
Illinois	37.9	13.8	25.8
Massachusetts	37.3	14.6	25.8
Michigan	35.6	12.5	23.9

* This is a simple average of the five states.

Table 2

**Aggregated Effective Fiscal Burden (in percent) on Cost of Doing Business
From Entrepreneurial Perspective, Ontario vs. the Five States, 2004 - 2006**

	on capital	on labor	on Costs
2004			
Ontario	50.0	23.9	36.4
5 US States: Average*	43.1	15.1	29.5
California	46.5	18.6	33.1
Georgia	39.3	14.7	27.1
Illinois	43.8	14.1	29.6
Massachusetts	44.3	15.4	30.4
Michigan	41.5	12.5	27.5
2005			
Ontario	49.8	22.9	35.9
5 US States: Average*	46.2	14.8	31.5
California	49.4	18.3	35.0
Georgia	42.9	14.2	29.1
Illinois	46.8	13.9	31.6
Massachusetts	47.3	15.0	32.3
Michigan	44.7	12.5	29.6
2006			
Ontario	49.2	22.0	35.1
5 US States: Average*	46.2	14.5	31.4
California	49.4	17.8	34.8
Georgia	42.9	13.9	28.9
Illinois	46.8	13.8	31.5
Massachusetts	47.3	14.6	32.2
Michigan	44.7	12.5	29.6

* This is a simple average of the five states.

Table 3**Aggregated Effective Fiscal Burden (in percent) on Cost of Doing Business
For Large and Medium Firms, Ontario vs. the Five States, 2006**

	on capital	on labor	on Costs
Ontario			
Forestry	24.0	17.1	20.1
Manufacturing	30.6	26.1	28.2
Construction*	44.3	21.5	28.8
Transportation	15.5	21.6	19.8
Communications	44.5	23.6	36.5
Public utilities*	40.8	28.8	37.2
Wholesale Trade*	37.8	25.9	29.5
Retail Trade	38.6	11.8	20.9
Other services*	43.9	18.3	28.8
Mining	4.3	35.8	23.4
5 US States: average**			
Forestry	26.9	11.8	18.9
Manufacturing	22.8	15.8	18.6
Construction	36.8	17.6	25.0
Transportation	6.6	16.6	13.8
Communications	22.8	18.7	21.3
Public utilities	27.9	21.0	26.4
Wholesale Trade	35.5	17.2	24.2
Retail Trade	32.9	6.4	15.2
Other services	41.3	13.6	29.1
Mining	NA	NA	NA

* Capital share in this sector is lower in Canada than that in the US.

** This is a simple average of the five states.

Table 4**Aggregated Effective Fiscal Burden (in percent) on Cost of Doing Business
From Entrepreneurial Perspective, Ontario vs. the Five States, 2006**

	on capital	on labor	on Costs
Ontario			
Forestry	42.6	17.1	30.2
Manufacturing	44.1	26.1	35.6
Construction*	54.7	21.5	33.6
Transportation	37.9	21.6	27.5
Communications	53.8	23.6	43.6
Public utilities*	52.8	28.8	46.6
Wholesale Trade*	50.5	25.9	34.7
Retail Trade	51.2	11.8	27.2
Other services*	54.4	18.3	34.9
5 US States: average**			
Forestry	40.9	11.8	26.9
Manufacturing	36.1	15.8	24.4
Construction	47.0	17.6	30.2
Transportation	27.6	16.6	20.3
Communications	37.1	18.7	30.0
Public utilities	40.9	21.0	37.3
Wholesale Trade	46.3	17.2	29.5
Retail Trade	44.7	6.4	20.8
Other services	50.0	13.6	35.5

* Capital share in total inputs is lower in Canada than that in the US.

** This is a simple average of the five states.

Table 5
Aggregated Effective Fiscal Burden (in percent) on Cost of Business in Ontario
For Large and Medium Firms by industry, 2004 - 2006

	on capital	on labor	on Costs
2004			
Forestry	26.1	18.1	21.7
Manufacturing	32.4	28.0	30.1
Construction*	45.8	24.9	31.5
Transportation	19.5	22.8	21.8
Communications	46.1	25.1	38.2
Public utilities*	42.6	30.5	38.9
Wholesale Trade*	39.2	23.6	28.5
Retail Trade	40.3	17.1	24.8
Other services*	45.3	20.5	30.6
Mining	5.1	35.2	23.2
2005			
Forestry	25.8	16.5	20.7
Manufacturing	32.1	27.3	29.5
Construction*	45.6	24.0	30.9
Transportation	18.9	24.7	23.0
Communications	45.8	24.5	37.8
Public utilities*	42.2	28.7	38.2
Wholesale Trade*	39.0	22.9	28.0
Retail Trade	40.0	13.5	22.5
Other services*	45.0	19.2	29.9
Mining	4.6	33.5	21.8
2006			
Forestry	24.0	17.1	20.1
Manufacturing	30.6	26.1	28.2
Construction*	44.3	21.5	28.8
Transportation	15.5	21.6	19.8
Communications	44.5	23.6	36.5
Public utilities*	40.8	28.8	37.2
Wholesale Trade*	37.8	25.9	29.5
Retail Trade	38.6	11.8	20.9
Other services*	43.9	18.3	28.8
Mining	4.3	35.8	23.4

* Capital share in total inputs is lower in Canada than that in the US.

Table 6**Aggregated Effective Fiscal Burden (in percent) on Capital Investment*
For Large and Medium Firms, Ontario vs. the Five States, 2004 - 2006**

	2004	2005	2006
Current Case			
Ontario	38.2	38.0	36.6
5 US States	32.0	36.0	36.0
Excluding subsidies*			
Ontario	43.3	43.1	41.8
5 US States	37.9	41.5	41.5
Excluding federal taxes			
Ontario	27.9	27.9	27.9
5 US States	22.0	22.0	22.0

*Excluding government investment in infrastructure and subsidies to R&D. The 5 US State average is based on the simple average.

Table 7**Sub-National Effective Tax Rate (in percent) on Capital Investment*
For Large and Medium Firms, Ontario vs. the Five States, 2006**

	Ontario	5 US States
Current Case	27.9	22.0
Excluding capital tax	23.5	21.1
Further excluding sales tax	11.0	4.9

Note: The estimate for the 5 US States is based on the simple average.