



**Presentation to Standing Committee on Finance and Economic Affairs
Re: Bill 174 – *Strengthening Business through a Simpler Tax System Act, 2006***

**Ontario Public Service Employees Union
May 15, 2007**

Good afternoon.

My name is David Rapaport, and I am the Vice-President of the Ontario Public Service Employees Union for the Toronto region.

With me today, are OPSEU members Leo Herskovits, Kathleen Demareski and Maurice Gabay. Leo is a Senior Corporate Tax Auditor with the Ministry of Revenue and is acting president of OPSEU Local 599, representing staff at the Ministry's Toronto Tax Office. Kathleen is a Verification Officer with the Ministry's Ontario Child Care Supplement Program in Oshawa and is OPSEU Co-chair of the joint Ministry of Revenue Enforcement and Renewal Committee. Maurice is a Corporations Tax Auditor with the Toronto Tax Office and is President of OPSEU Local 599.

I would like to thank the committee for this opportunity to speak to you about our many serious concerns regarding Bill 174.

This bill has two main purposes. First it aims to "harmonize" Ontario corporate taxes with the Federal corporate tax system. Second, it will allow the province to outsource responsibility for collecting provincial corporate tax to the Canada Revenue Agency. These measures are part of what the provincial government calls the "Corporate Tax Administration Redesign" project.

In promoting Bill 174 and CTAR, Finance Minister Greg Sorbara has emphasized the benefit to Ontario corporations. In particular, the Minister has noted that Bill 174 will both simplify corporate tax reporting and reduce the amount of tax corporations pay.

Bill 174: Good for corporations, bad for people

Unfortunately, in this case, what may be good for Ontario corporations is bad for the people of Ontario – and for the government's ability to set independent tax policy in the provincial interest.

This may explain why, over the last two decades, provincial governments of every political stripe – under David Peterson, Bob Rae and Mike Harris – have studied and rejected the idea of merging Ontario's corporate tax administration with the federal system.

It may also explain why, now that he is the federal Minister of Finance, Jim Flaherty thinks merging the two systems is a great idea.

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Costing Ontarians millions

The bottom line is that outsourcing Ontario's corporate tax administration to the federal government will cost Ontarians millions of dollars in lost provincial revenue every year.

Currently, Ontario's corporate tax collection and auditing is entirely self-funding. The service itself costs approximately \$80 million a year. This is less than the amounts collected in penalties and interest – money that will end up in federal coffers after the transfer takes effect in January 2009.

What's more, provincial auditors currently recover more than \$300 million in unpaid corporate taxes each year. Most of these taxes are recovered from corporations that have *already* been audited by the Canada Revenue Agency. Yet once this responsibility is transferred, the province will be entirely reliant on CRA auditors to identify and recover these unpaid provincial funds.

Eroding Ontario's corporate tax base

This loss of autonomy will also affect our ability to protect Ontario's corporate tax base. One of our provincial tax auditors' key roles is to ensure that corporations do not avoid paying Ontario tax by allocating revenue earned in Ontario to other provincial jurisdictions. Under Bill 174, the province will lose its ability to independently monitor these allocations. Instead, Ontario will leave this role to federal auditors, who will be simultaneously responsible for monitoring corporate revenue allocations on behalf of seven other provinces and three territories. British Columbia, which has already merged its corporate tax system with the federal government, has experienced significant problems in this area.

Also as part of this federal-provincial harmonization, Ontario is in the process of eliminating the provincial Capital Tax. This corporate tax cut will cost the province more than \$1 billion each year. To date, the government has not indicated how it will make up this shortfall. However, we note that the Finance Minister Sorbara has decided to extend the regressive Ontario Health Premium, which raises \$2.6 billion annually from Ontario families.

Changes to the Capital Tax will also mean a windfall for the federal government. Under Bill 174, once corporate tax administration is transferred to CRA, Ottawa will keep ALL unreported amounts recovered under the Ontario Capital Tax. None of these revenues will go to Ontario.

Yet, Bill 174 contains no measures that will make the federal government accountable for ensuring that non-filing and non-paying corporations pay the corporate taxes they owe to Ontario.

Is it any wonder that Ottawa is happy to pay the province \$400 million to take over Ontario's corporate tax administration system? Over time, Ottawa's gain – and Ontario's loss – will far exceed this amount.

So far, I have focused on the direct – and substantial – costs to the provincial treasury.

Provincial control of tax policy

Equally significant is the loss of provincial control over corporate tax policy. If Bill 174 goes forward, it will be much harder for Ontario to introduce new corporate taxes, or to fine-tune the tax system to meet provincial policy objectives. The main way to change revenues from corporations will be to increase corporate tax rates across the board – a move that will always be difficult politically. Targeting of tax effects will only be possible through tax credits – a cumbersome method at best.

By the same token, in 2002, the provincial auditor found that half of Ontario's corporations failed to file the required tax returns. In response, the Ministry of Finance took steps to start tracking down non-filing corporations and collect an estimated \$115 million in unpaid taxes. This project is now on hold, and with the transfer to the federal government, Ontario will lose the ability to ensure corporate tax compliance in the future.

This decision to abdicate responsibility for tracking down non-filing corporations seems particularly perverse given the government's recent acknowledgement of the need to crack down on the underground economy, as reported in today's Toronto Star.

Protecting human resources

Finally, I want to point out that Ontario currently employs approximately 500 staff in corporate tax collection. Of these people, roughly 40 per cent work in tax collection and 60 per cent as auditors. The majority of these OPSEU members are accredited accounting professionals – Chartered Accountants, Certified Management Accountants, Certified General Accountants – and some have Masters degrees in Business Administration.

The Ontario and federal governments are, apparently, still negotiating human resources agreements related to CTAR. However, the Ontario government has made no commitments to any of these workers that they will be able to transfer to equivalent positions with the Federal government or be redeployed within the Ontario Public Service. Bill 174 contains no such commitments either. The CTAR project therefore risks a major "brain drain" of tax and accounting professionals out of government, to the detriment of the people of Ontario.

Bill 174: Bad for Ontario

To conclude, then, Bill 174 represents a major threat to Ontario's corporate tax base and the government's ability to provide adequate funding for the important public services on which our communities rely.

Bill 174 is bad for Ontario.

We therefore urge the government and this committee to reconsider this Bill. By changing course now, you can preserve Ontario's ability to set and enforce an independent, made-in-Ontario tax policy, in the interests of all Ontario citizens.

We would be happy to answer any questions you may have.