



Return to Written Question

THE HONOURABLE ROBERT C. MCLEOD
MINISTER OF FINANCE

Small Business Taxes

Mr. Speaker, I have a Return to Written Question asked by Mr. Testart on June 29, 2016 regarding Small Business Taxes.

1. Over a ten-year average, how many small business are operating in the Northwest Territories and how many do not pay taxes based on GNWT tax regulations?

Response:

For NWT tax purposes, a small business is usually defined as a company owned by Canadians with capital investment of less than \$10 million and with shares of the company not traded on a stock exchange. A small business receives preferential tax treatment in that its business profit (taxable income) up to \$500,000 is subjected to a lower corporate income tax rate of 4 per cent instead of the general corporate income tax rate of 11.5 per cent.

The amount of the active business income limit for the small business corporate tax rate has changed three times since 2004 and therefore a ten year average would not compare the same data set of small businesses. The current business limit of \$500,000 is unchanged since 2009. Therefore, the response is restricted to the five year period from 2009 to 2013, which is the latest data available.

Using the 2009 to 2013 average, the NWT has 1,853 small businesses including those operating as not for profit organizations. About 1,009, or 54 per cent, of these businesses do not pay NWT corporate income tax.

2. Can the Minister provide details of the policies, legislation and any additional regulations that permit small businesses in the Northwest Territories not to pay taxes?

Response:

There are no policies, legislation or regulations that permit small businesses to not pay taxes when they are profitable. Businesses in the NWT are subject to the federal *Income Tax Act* and the NWT *Income Tax Act* and both provide preferential income tax treatment to small businesses. NWT legislation provides preferential income tax treatment to small businesses, where the first \$500,000 of active business income earned by these small businesses is subject to the 4 per cent small business tax rate. Income over this threshold is subject to the 11.5 per cent general corporate income tax rate.

If a small business is not paying taxes it is because it is not generating taxable income. This is the case if its revenue generated for the year is fully offset by allowable business deductions and credits. Further, when the business incurs a loss for the year, it is allowed to use the loss to reduce tax paid back three years or carry the loss forward and apply it against future profits for up to 20 years.

3. What is the projected impact on Government revenue over a ten-year average of a reduction of one per cent to the lower corporate income tax rate?

Response:

The small business tax revenue yield is fairly stable. Reducing the small business tax rate from 4 per cent to 3 per cent would generate a potential average annual GNWT revenue loss of \$700,000.

4. What is the projected impact on Government revenue over a ten-year average of a reduction of two per cent to the lower corporate income tax rate?

Response:

Reducing the small business tax rate from 4 per cent to 2 per cent would generate a potential average annual GNWT revenue loss of \$1.4 million.

5. What is the projected impact on Government revenue over a ten-year average of a reduction of one per cent to the higher corporate income tax rate?

Response:

Reducing the general corporate income tax rate from 11.5 per cent to 10.5 per cent would generate a potential average annual GNWT revenue loss of \$5.3 million based on a ten year average; however, corporate income can fluctuate significantly and the potential losses over the ten year period (2005 to 2014) from a one percentage point reduction in the general corporate rate would have ranged from \$3 million to \$9 million.

Thank you, Mr. Speaker.