



First Nation Taxation and New Fiscal Relationships

The paper finds that First Nations require a new fiscal relationship if they are to ever develop tax regimes and significant revenues from these. A new fiscal relationship is the key to developing incentives to tax and, more importantly, developing the tax base on First Nation lands. A new fiscal relationship could therefore provide an opportunity for First Nations to greatly improve self-sufficiency and economic opportunity.

A new fiscal relationship is also a necessary part of other goals not directly related to taxes or transfers. These goals include defining jurisdictions, building administrative capacity and developing logical systems of governance.

The paper's key point is that a fiscal relationship is not simply a transfer formula. It is the financial blueprint that will define or determine the following:

- the jurisdiction and associated service responsibilities of First Nation governments and also the responsibilities of other governments towards First Nation citizens; and
- the own-source revenue powers and transfer entitlements available to First Nation governments and the conditions that are attached to each of these; and
- the access to capital by First Nation governments.

Problems with the Current Fiscal Relationship

Current fiscal relationships for First Nations are too restrictive, conditional and uncertain. Because transfers are insufficient, First Nations cannot develop their economic base. Because transfers are too conditional, there is little incentive to seek administrative efficiencies and service innovations. Because transfers are too uncertain First Nation governments are less able to conduct long term planning.

At present, there is little certainty for First Nations that transfers will not be reduced if they develop tax authorities.

The development of First Nation tax authorities is limited because, at present, provincial governments occupy much of their potential tax base. Provincial governments are far less able to develop this tax base than are First Nations themselves.

The current fiscal relationship does not support a healthy business climate on First Nation lands. It creates regulatory conflict with surrounding jurisdictions. As well, it impedes the ability of communities to respond to investors because so many actions require approval from Ottawa.

The current fiscal relationship does not fully define the responsibilities of each level of government towards First Nation citizens and as a consequence, accountability is reduced and service quality suffers.

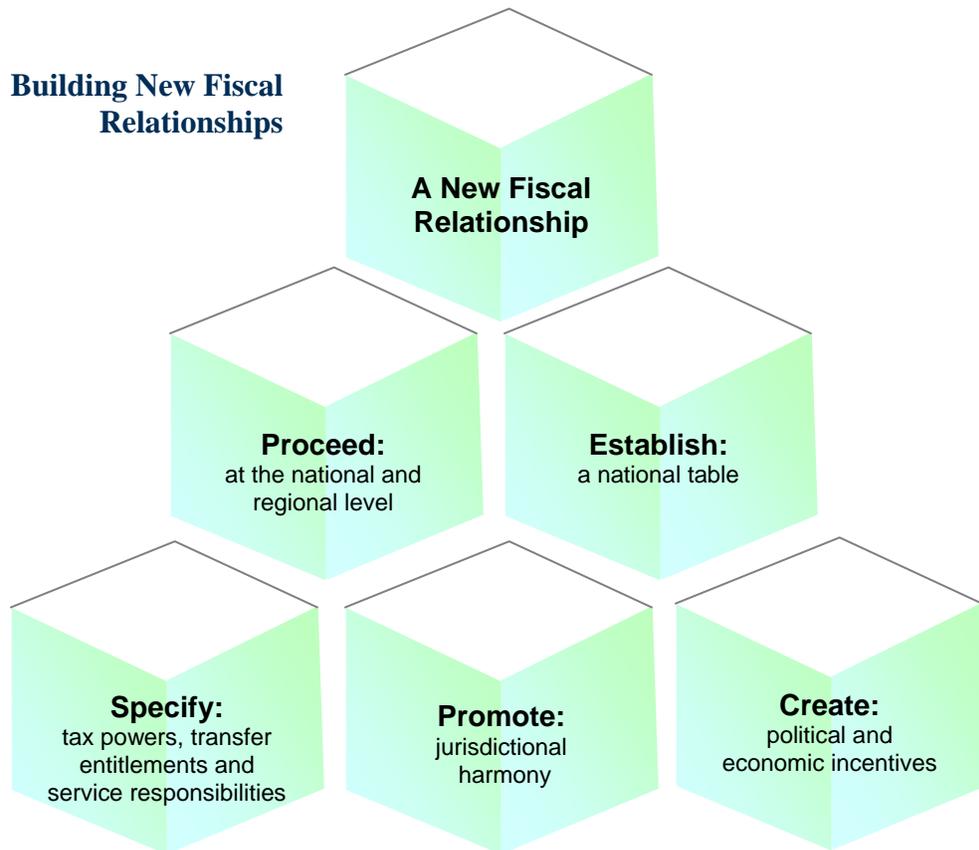
Characteristics of an Improved Fiscal Relationship

A new fiscal relationship must fully specify tax powers, transfer entitlements and service responsibilities for all levels of governments towards First Nation citizens. It must then make financial adjustments to reflect these responsibilities.

A new fiscal relationship should promote jurisdictional harmony across the country. This would improve the First Nations' investment climate, reduce their administration costs and promote accountability by allowing for easier comparisons.

A new relationship should create political and economic incentives to implement taxation by specifying an offset formula and offering specific inducements for taxation.

The establishment of a new fiscal relationship should proceed at both the national and regional levels. A national table would ensure that all fiscal relationships with different groupings of First Nations adhere to common principles and are set within a common framework. Such a table would also help create incentives among First Nations to seek administrative efficiencies. It would also prevent the perception that provincial and federal interests are playing First Nations off one another and would help ensure that self-government does not entail a significant increase in complexity and cost of government in Canada.



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