

Indian Taxation Advisory Board –Pre-Budget Submission

Background:

The Indian Taxation Advisory Board (ITAB) has existed for ten years as a national institution of First Nation governance and a regulatory body for property tax. Since its establishment it has assisted 75 First Nations in entering the field of real property taxation, allowing them to collect over \$30 million in annual revenue providing services to more than 15,000 taxpayers. These revenues have supported improved services and allowed many First Nations to access capital markets for the first time. Access to capital has allowed First Nations to finance the improvements in public infrastructure needed to attract further private investment.

In short, the benefits of property taxation have gone far beyond tax revenues. It has improved communications between First Nations and their adjacent local governments and thereby improved the investment climate of both. Property taxation has enabled many First Nations to seek investment and participate in the national economy. It has created a greater awareness among First Nations of the potential of business investment and its requirements. It has contributed to a broad change in the mindset of many First Nation persons towards actively seeking business opportunities. It is actually starting a transformation of many reserves from economies dependent on transfers to economies that generate wealth. Furthermore, ITAB has worked with First Nation tax authorities to develop their management capacity with respect to all aspects of property tax – budgeting, service provision, administration, capital financing to name just a few. This has gone a long way towards developing responsible administrations, self-sustaining First Nation economies, improved social infrastructure and a more productive and prosperous First Nation workforce.

The ITAB is now developing a plan outlining the next stage of its evolution – from a delegated authority under the Minister of Indian Affairs into a statute based commission exercising real authority over property taxation. It is to our knowledge the first such institution for indigenous people anywhere in the world.

ITAB has accomplished many good things. However, the problems facing First Nations are far larger than the capabilities of ITAB. The United Nations Human Development Index Ranking ranked Canada as the best country in the world to live. If the same methodology were applied to persons living on reserve, they were rank 63rd. Incomes on reserve are much lower than in the country as a whole. Rates of social assistance are much higher and growing faster than in the rest of the country. Infrastructure tends to be very substandard and puts First Nations at a substantial disadvantage versus the rest of the country. Rates of business investment are much lower. Furthermore, First Nations are the fastest growing population in the country. The First Nation share of the workforce will triple over the next fifteen years. These statistics lead to one depressing conclusion. **If First Nation economies cannot be substantially improved, then demographic trends guarantee strong upward pressure on social spending associated with poverty, upward pressure on the natural rate of unemployment and downward**

pressure on Canadian productivity. This will also happen at a time when Canada's fiscal resources will be strained by sharp increases in the number of retirees.

Comment on Themes:

Tax Relief and Reform:

The ITAB is working to improve the integrity of the Canadian tax system by ensuring uniformity of regulation across First Nations and by promoting the harmonization of property tax regimes and service standards between First Nations and adjacent jurisdictions. These efforts will reduce both administration and compliance costs associated with taxation. This has also set a sound precedent for evolution of self-government and the further assertion of First Nation jurisdiction. National First Nation institutions will allow First Nations to fill holes in the Canadian tax system and enhance the integrity of the system as a whole.

Social Infrastructure and Productivity:

The key to ensuring sustainability of social programs and our standard of living is improving the productivity of our workforce. A key element of this strategy must be First Nation workers since they are the fastest growing group in the workforce. The best means of improving First Nation productivity is to bring private investment to First Nation lands. The FNTC will facilitate investment by: (1) providing First Nations with the ability to finance necessary improvements to infrastructure and services; (2) providing investors with assurances regarding service quality and tax rates; (3) building administrative efficiency on reserve; and (4) reducing compliance costs associated with taxation and ensuring regulatory harmony.

The FNTC will indirectly support improved productivity by continuing to improve relations between First Nations and adjacent governments. Improved relations will improve the national investment climate and all governments stand to benefit from that. Furthermore, many areas such as the Lower Mainland of British Columbia are facing substantial land pressures that are constraining growth and their ability to take advantage of investment opportunities in the new economy. The best remaining sites for development are often on First Nation lands. The FNTC is helping to open them up by allowing First Nations to share in the benefits of their development.

Proposal:

1. Expedite the establishment of the First Nation Tax Commission.

Attached is a business plan for transforming the existing ITAB into a First Nation Tax Commission (FNTC). The FNTC will be a First Nation institution with real powers based in statute with respect to First Nation property tax systems. Its establishment will

be an important symbol of federal intentions with respect to self-government. It will also set an important precedent that ensures self-government evolves in a manner which supports the economic union of Canada and hence improved productivity.

The business plan foresees expanded powers for the FNTC. These powers will allow it to better guarantee the integrity of the First Nation property tax system and to take measures that improve the investment climate of First Nations. These changes will help First Nations to better realize the benefits of a market economy. They will support improved productivity by bringing investment and creating jobs on reserve. This will reverse the trend towards rising social dependency and lower productivity.