

Indian Taxation Advisory Board Pre-Budget Submission (2000)

Background

The Indian Taxation Advisory Board (ITAB) is a national institution of First Nation governance and a regulatory body for property tax. Since its creation in 1989 by the Minister of Indian Affairs and Northern Development, it has assisted 83 First Nations in entering the field of real property taxation, allowing them to collect over \$35 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 - allowing First Nations to finance the necessary improvements in public infrastructure to enable them to attract further private investment.

In short, the benefits of property taxation on-reserve have gone far beyond tax revenues. It has improved communications between First Nations and their adjacent local governments - thereby improving the investment climate of both. Property taxation has enabled many First Nations to seek investment and better 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 mind set of many First Nation persons towards actively seeking business opportunities. It is actually starting a transformation of many reserves from economies dependent on government 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 helped to develop responsible First Nation tax administrations, self-sustaining First Nation economies, improved social infrastructure and a more productive and prosperous First Nation workforce.

ITAB is finishing a plan which outlines 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 on-reserve. To our knowledge, it is the first such institution for indigenous people anywhere in the world.

Last year, while appearing before the Standing Committee on Finance, ITAB asked that all parties support the establishment of a First Nation Tax Commission (FNTC). All parties verbally supported the proposal during the pre-budget hearings. The FNTC will be a First Nation institution with real powers based in statute. Its creation will be an important symbol of federal intentions with respect to self-government for First Nations. It will also set an important precedent that ensures self-government evolves in a manner that supports the economic union of Canada.

The FNTC will have expanded powers. These powers will permit the FNTC 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 on-reserve and create jobs and, as a result, reverse the trend towards rising social dependency and lower productivity.

Context

ITAB has accomplished many things since 1989. However, the problems facing First Nations are far larger than the capabilities of ITAB. First Nations are left out of the fiscal framework of Canada. First Nation federal expenditure priorities are seen as competing with priorities for other Canadians. As a result, First Nation economic development is seen as competing with that of other Canadians. Leaving First Nations out of the Canadian family of governments has caused the economic symptoms with which we are all so familiar.

The United Nations Human Development Index Ranking placed Canada as the best country in the world to live. If the same methodology were applied to solely persons living on-reserve, they would rank 63rd. Incomes on reserve are much lower and 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. Rates of business investment are much lower. The cost of doing business on First Nation land is 5 to 6 times higher than off-reserve.

The fiscal impact of these symptoms will make it difficult to achieve our mutual interests. 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 improved substantially, 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.

Update

Since last year, ITAB has been consulting with affected parties about three issues relating to the FNTC:

1. What mechanisms can be established to improve representation for taxpayers within First Nations?
2. How can the FNTC best support the expansion of First Nation tax powers?
3. How can the FNTC best coordinate its activities with other governments and other First Nation institutions?

Non-native lessees and taxpayers on First Nation land are not able to vote for First Nation councils. This does not mean, however, that local representative boards cannot be established and regulated to ensure that their interests are heard and protected. The proposed FNTC is a national example of such a representative board. ITAB has been consulting with taxpayers, especially, representatives from Musqueam and made a presentation to the Canadian Tax Foundation on this issue in April. An options paper on appropriate taxpayer representative forums is being developed.

In the 1999 budget, 10 more First Nations indicated their interest in expanded federal sales tax authority over fuel, alcohol and tobacco. This is a positive trend toward reducing First Nation transfer dependency and follows directly from the recommendations of the Royal Commission on Aboriginal Peoples. Expanding First Nation tax room on-reserve raises a number of harmonization, capacity, education, technical and fiscal issues. Both ITAB and the future FNTC could play an important role in facilitating greater First Nation tax powers.

As First Nation governments at the local, regional and national levels continues to be rebuilt, local, regional and national institutional services responsibilities and functions will have to be assigned to ensure First Nation governments promote economic development and are also cost effective. Understanding interests and mandates and coordinating functions is best accomplished through consultations with other First Nation institutions and governments.

Proposal

ITAB is seeking the continued support of the federal government for the expansion of First Nation revenue options to reduce First Nation transfer dependency and improve First Nation economies. The federal government must continue to support the establishment of the First Nation Tax Commission as a First Nation fiscal institution of government and that all parties support and participate in the consultation process towards the First Nation Tax Commission.

ITAB is working to improve the integrity of the Canadian tax system by ensuring uniformity of regulation in First Nations across Canada and 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 expansion 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.

The key to ensuring the sustainability of social programs and our standard of living is improving the productivity of the Canadian workforce. A key element of this strategy must be First Nation workers since they are the fastest growing group in the workforce. The best way to improve 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 on-reserve 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, something which all governments will benefit.