



***Institute for
Research on
Public Policy***

***Institut de
recherche
en politiques
publiques***

For Immediate Distribution
Thursday, March 4, 2004

NEWS RELEASE

***Study Says the Current Equalization Formula
Confiscates Saskatchewan's Energy Revenues***

***These equalization clawbacks or tax-backs are nothing short of
astounding, says IRPP Senior Scholar Thomas J. Courchene***

Montreal – The Institute for Research on Public Policy (IRPP.org) released today a study by Thomas J. Courchene entitled “Confiscatory Equalization: The Intriguing Case of Saskatchewan’s Vanishing Energy Revenues.”

The study argues that Canada’s equalization program confiscates Saskatchewan’s energy revenues. They are subject to a tax-back rate of 125 percent, says the author.

Conversely, provinces with no energy revenues pocket significant amount from energy-related equalization; from \$16 million for PEI to a whopping \$872 million for Quebec, notes Courchene.

The study identifies three main reasons for this fiscal inequity:

Part of it results from the shift to a five-province standard (FPS) which replaced the all-province standard (NAS). With Alberta out of the picture in calculating the FPS tax base “Saskatchewan becomes, essentially by default, a very rich province for energy,” says Courchene. Hence, its tax-back rate is significantly higher under the FPS than it would be under the NAS.

In addition, Saskatchewan does not qualify for the maximum 70 percent tax-back rate (generic solution) because although it has 70 percent of the FPS base, it does not have 70 percent of the NAS base, which is used to calculate eligibility. Consequently, Saskatchewan’s tax-back rates are in the 100 percent range.

Furthermore, Courchene states that equalization authorities have adopted artificial tax bases and tax rates for some revenue sources, which have exacerbated the tax-back rates because they essentially second-guess the market. Using the sales of Crown leases as an example, Courchene demonstrates that while Saskatchewan raises \$61 million in revenues from these sales, it loses \$124 million in equalization (a tax-back rate of 200 percent).

Acknowledging that “none of these decisions was deliberately directed toward Saskatchewan,” Courchene does conclude that the “cumulative impact represents a wholesale assault on the fiscal, incentive and competitive environments of Saskatchewan’s energy sector, with obvious and dramatic spillovers to the province’s entire budgetary environment.”

He thus provides immediate and long-term policy recommendations to redress the fiscal inequity. For instance, he calls for the immediate maximum equalization tax-back rate of 70 percent for each revenue category. And, in the longer term he proposes granting eligibility for equalization to approximately 25 percent of energy revenue (and resource revenue generally).

“Confiscatory Equalization: The Intriguing Case of Saskatchewan’s Vanishing Energy Revenues” is the latest *Choices* study to be released as part of the IRPP’s Economic Policy and Growth research initiative. It is now available on-line in Adobe (.pdf) format on the Institute’s Web site (www.irpp.org). Please find the summary attached.

For more information or to request an interview, please contact the IRPP.

To receive IRPP media advisories and news releases via E-mail, please subscribe to the IRPP E-distribution service by visiting the IRPP Web site (www.irpp.org).

Founded in 1972, the IRPP is an independent, national, nonprofit organization based in Montreal.

- 30 -

Contact:

Jasmine Sharma (jsharma@irpp.org)
Director of Communications and Public Relations
IRPP.org
(514) 985-2461